The Economist

America, land of leisure
PAGE 28

What Afghanistan needs
PAGES 12 AND 17

The strength of corporate Japan
PAGES 10 AND 61-63

Lakshmi Mittal's steely audacity
PAGES 11 AND 55

FEBRUARY 4TH-10TH 2006 www.economist.com

The one thing Bush got right

The Economist

What Afghanistan needs
PAGES 12 AND 25

The rise of political Islam
PAGES 10 AND 61-63

America, land of leisure
PAGE 34

Lakshmi Mittal's steely audacity
PAGES 11 AND 55

FEBRUARY 4TH-10TH 2006 www.economist.com

Saving Japan from the shadows

The lessons of livedoor

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Catch if you can
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
Economist Diaries and Business Gifts

Print Edition February 4th 2006

On the cover
For all his other foreign-policy mistakes, and whatever the alarm about Hamas, George Bush is right about democracy: leader

Previous print editions
Jan 28th 2006
Jan 21st 2006
Jan 14th 2006
Jan 7th 2006
Dec 24th 2005
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week
Politics this week
Business this week

Leaders
Democracy and Islam
The one thing Bush got right

Japan after livedoor
Saving it from the shadows

Dealing with Iran
A rare diplomatic unity

Cross-border mergers
Heavy Mittal

Afghanistan
Heading south

Letters
On Alan Greenspan, Robert Frost, Kashmir, Saudi Arabia, Ariel Sharon, socialism, public relations

Special Report
Political Islam
Forty shades of green

United States
State of the union
Running on empty

Energy policy
The pusher-in-chief

Detroit
All spruced up

Coretta Scott King
A giant's widow

Work and play
The land of leisure

Leisure pursuits
The Stitch 'n' Bitch niche

Lexington
The losers

The Americas
Haiti's election
At last, a bridge of sorts to the future

Costa Rica
After the fall

Brazil's Indians
Land wars

Canadian business icons
A foreign invasion

Asia
Afghanistan
A charter in London, troops for the badlands

Afghanistan's economy
Creeping towards the marketplace

India
Bobbing along

China
Deep freeze

Business
Steel
Age of giants

European takeovers
Powerless patriots

German companies
My way or the highway

Indian pharmaceuticals
Good chemistry

Packaged foods
Time to get Krafty

Luxury goods
Leather and canvas

Face value
China's uneasy billionaire

Special Report
Japan after livedoor
From hero to zero

Finance & Economics
The world economy
Testing all engines

Bond markets
Long ranger

Hedge funds and private equity
Unhappy hunting grounds

Payments in the euro zone
Stick beats carrot

Technology and exchanges
Moving markets

Trade in eastern Europe
Exporting success

Economics focus
Dividing the pie

Science & Technology
Malaria
Casting shadows

Dementia
Sleeping on it

Reproduction
Big daddy

Chronographs
Silicon spirals

The Richard Casement internship

Books & Arts
The Iraqi insurgency
What's really going on?

Ronald Reagan
Stars and bars

Alternative photography
Unfrozen in time

Memories of China
Boyhood dreams

Advertisement

The happy Chinese

Indonesia's media
Broadcast news

Middle East & Africa

Palestine
To whom will Hamas listen?

Iraq
Saddam Hussein's chaotic trial

Congo
Worries in the east

Eastern Africa
Famine spreads

Europe

Gloom in France
The unbearable lightness of being overtaken

French decline
Predators or prophets?

Germany and the family
The martyrdom of Ursula

Italy's election
A man of his words

Spain and its regions
Zapatero's footsteps

Romania and the European Union
Netting the untouchables

Charlemagne
Culture wars

Britain

Northern Ireland
Ulster's flagging peace process

Religion and free speech
Propheteering

London's police
The other Blair

Local health drive
Changing places

The gay economy
Village people

Gay statistics
Do ask, do tell

Scottish by-election
Mr Brown's bridge

Bagehot
With your permission

Britain's Glorious Revolution
Regime change

Amazon worldwide bestseller tables: history
The big book index

Obituary

Christopher Lloyd

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Computers in schools

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Households' saving rates

Emerging-Market Indicators

Overview

Mobile phones in Africa

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classifieds

Jobs
The Norwegian Refugee Council (NRC), in cooperation with the Office for the Coordination....

Business / Consumer
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Jobs
CHIEF ECONOMIST SACE is Italy's Export Credit Agency and assists Italian companies exporting ....

Business / Consumer
A Leading Indian Recruitment and HR Consulting Firm is Looking for Partn....

Tenders
Proprietatea Fund – Board of administration Propietatea Fund SA ....

Sponsors' feature

Copyright © The Economist Newspaper Limited 2006. All rights reserved. | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

document created by NiflHeiM

Politics this week

Feb 2nd 2006
From The Economist print edition

George Bush used his annual **state-of-the-union** address to trumpet the importance of spreading democracy and liberty around the world. He also unveiled several low-key domestic initiatives in health care, scientific research and energy, the last to wean Americans from what Mr Bush described as an "addiction" to oil. See article

Mr Bush's speech was attended by Samuel Alito in his new role as a **Supreme Court** justice. Mr Alito was confirmed earlier in the day by the Senate. Democratic talk of mounting a filibuster against the conservative judge faded away—though only four Democrats eventually supported his nomination.

AFP

Congress temporarily extended the provisions of the **Patriot Act** (again) until March 10th. The law was due to expire on February 3rd (a reprieve from the end of last year). Negotiations are continuing with the White House over the more intrusive provisions of the legislation.

Coretta Scott King, the widow of Martin Luther King, died at the age of 78. Mrs King took on an active role of preserving her husband's legacy after his assassination in 1968, and became a prominent figure in the American civil-rights establishment. See article

A former **postal worker** shot and killed six employees at a sorting office near Santa Barbara, California, before turning the gun on herself. She had been placed on medical leave from the facility for psychological problems.

West Virginia's governor halted production in the state's mines, where 16 people have been killed so far this year, so that safety inspections can be carried out.

Nuclear pressure

The UN Security's Council's five permanent members (Britain, China, France, Russia and the United States) agreed that **Iran's** non-compliance with its nuclear obligations should be reported to the council by the board of the International Atomic Energy Agency, the UN's nuclear guardian. The IAEA started an emergency meeting on February 2nd. Its inspectors have reported, for the first time, growing concerns about possible military links to Iran's nuclear programme. George Bush said America would defend Israel if Iran attacked it. See article

A week after a stunning election victory for the Islamist group, Hamas, in a **Palestinian** general election on January 25th, all sides—Hamas, Fatah (the main defeated party) and the Israeli government—sought to keep things calm. The American administration said it would cut off aid to the Palestinian Authority, lest it benefit terrorists, while European Union governments looked for ways to keep the cash flowing, even though they also list Hamas as a terrorist organisation. See article

Israel demolished nine buildings in a West Bank settlement outpost unauthorised by the Israeli government. The ensuing clashes between security forces and thousands of protesting youths resulted in more injuries and violence than in the evacuation of 25 settlements in Gaza and the northern West Bank last summer.

UN peacekeepers struggled to contain violence, mainly between ethnic groups, that has broken out in several places in eastern **Congo**. See article

Someone's got to do it

Two political heavyweights—Frank McKenna, a former premier of New Brunswick, and John Manley, a former deputy prime minister—ruled themselves out of the race to lead **Canada's** Liberal Party, which lost last month's election.

Ecuador's government said it would send a squadron of military planes to its northern border after it claimed that **Colombian** helicopters and aircraft had crossed into its territory during an operation against guerrillas.

Michelle Bachelet, **Chile's** newly elected president, named a cabinet that fulfils a campaign promise to give half its portfolios to women.

Lucía **Pinochet**, the eldest daughter of General Augusto Pinochet, Chile's former dictator, was detained on her return to Santiago after desisting from a bid to seek asylum in the United States. In common with others in the Pinochet family, she faces charges of tax evasion and fraud.

Publish and be damned

Ructions continued over the publication last year by **Denmark's** biggest newspaper of rude cartoons about the prophet Muhammad. Several Muslim nations recalled their ambassadors to Copenhagen, and sales of Nordic goods plunged in the Middle East. The cartoons were reproduced by papers in at least six European states. The managing editor of *France Soir* was sacked for his decision. See article

Tony Blair suffered a surprise defeat in the House of Commons over a bill against religious hatred, opposed by free-speech proponents. It was his government's second defeat in the chamber since coming to power in 1997 (the first, on the detention of terror suspects, occurred last November). See article

Bosnia acquired a new western high representative, or proconsul. Christian Schwarz-Schilling of Germany took over the job from Britain's Lord Ashdown.

Germany's economic recovery was dented by poor retail sales in December and an upward blip in unemployment. In **France**, however, unemployment fell.

Spain's prime minister, José Luis Rodríguez Zapatero, visited the two Spanish north African enclaves of Ceuta and Melilla. It was the first such visit by a Spanish leader for almost 25 years. See article

AFP

The roof on an exhibition hall collapsed in the **Polish** city of Katowice, killing 63 people at a pigeon fanciers' event.

A terminal issue

India's cabinet approved plans to privatise the country's two main airports, Delhi and Mumbai. Strikes by unions opposed to the idea immediately followed.

Japan's foreign minister, Taro Aso, caused outrage by suggesting that the emperor visit the controversial Yasukuni shrine, where the souls of Japan's war dead are enshrined. He later admitted that this would be impossible under current circumstances.

A conference in London on the future of **Afghanistan** received pledges both of more aid and of more soldiers. But the fear is that the contributions of neither will be generous enough. See article

China closed down *Bing Dian*, a newspaper supplement that has specialised in independent reporting. See article

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Feb 2nd 2006
From The Economist print edition

A chorus of disapproval from politicians in France and Luxembourg greeted **Mittal Steel's** hostile *euro*18.6 billion ($22.8 billion) bid for **Arcelor**, the world's second-largest steelmaker. Based in Luxembourg, but employing thousands in France, Spain and Belgium, Arcelor's board rejected Mittal's offer and depicted its boss, Lakshmi Mittal, as a ruthless raider. The bid was launched soon after Arcelor won its own hostile takeover battle for Dofasco, a Canadian rival. See article

The criminal trial of Kenneth Lay and Jeffrey Skilling, former chief executives at **Enron**, began in Houston. Both men are pleading not guilty to charges of fraud and misleading the energy trader's investors before its bankruptcy in December 2001.

Prosecutors brought charges against three former top executives (including the former boss) of **General Re**, a subsidiary of Berkshire Hathaway, and a former executive at **AIG** for fraud connected to a reinsurance deal. The announcement of an investigation last spring was one of the factors that eventually led to the resignation of AIG's boss, Maurice "Hank" Greenberg.

Deutsche Bank extended the contract of Josef Ackermann as chief executive until 2010. Mr Ackermann has won plaudits for increasing the profitability of Germany's biggest bank, which reported a net profit of *euro*3.8 billion ($4.7 billion) for 2005—up 53% on 2004. However, a court recently decided he should be retried in a case relating to the payment of bonuses at Mannesmann when Mr Ackermann was on the telecom firm's supervisory board (he denies any wrongdoing).

Fairmont Hotels & Resorts, which is based in Toronto and operates luxury hotels worldwide**,** agreed to be bought for $3.9 billion by **Kingdom Hotels International**, an investment company of Prince Alwaleed bin Talal of Saudi Arabia, and **Colony Capital**, a real-estate investment firm. Fairmont will combine with the Raffles hotel group, which Colony bought last July. See article

Return of the high flyer

United Airlines emerged from bankruptcy protection. After it filed for protection in December 2002, the carrier launched a restructuring plan that cut around a quarter of its jobs, trimmed its fleet and eliminated $13 billion in debt and pension obligations.

JetBlue's share price tumbled after the low-cost carrier, which is based in New York, reported its first quarterly loss ($42.4m) since making a highly popular stockmarket debut in April 2002.

Fiat Auto reported a *euro*21m ($25m) trading profit in the fourth quarter, its first quarterly profit in more than four years. Fiat Group's net industrial debt position also improved, standing at *euro*3.2 billion at the end of 2005, down from *euro*9.5 billion at the end of 2004.

Very big oil

Exxon Mobil posted a net profit of $36.1 billion, the largest in American history, and **Royal Dutch Shell** reported a British corporate profit record of £13 billion ($23 billion), both for 2005. The news fuelled complaints that oil companies are making huge profits at consumers' expense.

Kraft Foods said it had "leveraged its business simplification initiatives" and expanded its restructuring programme to offset higher commodity costs. America's biggest food company will shut a further 20 plants and eliminate an extra 8,000 jobs. See article

Axel Springer, Germany's largest newspaper publisher, abandoned its takeover bid for **ProSiebenSat.1**, a broadcaster that controls a large chunk of German TV advertising. Axel Springer hoped to create a group that could challenge Bertelsmann, Germany's biggest media firm, but the deal was opposed by regulators.

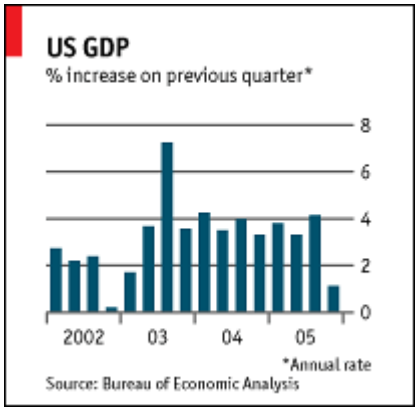
Google's fourth-quarter net profit of $372m, an increase of 82% compared with a year earlier, fell short of analysts' expectations and frightened investors. The firm's share price, which debuted at $85 in 2004 but is forecast by some to top $600 by the end of 2006, plunged to below $400 before recovering somewhat.

Carl Icahn named Frank Biondi, who headed Viacom until 1996, as his choice to replace Richard Parsons as **Time Warner's** boss. Mr Biondi is the brother of Michael Biondi, head of investment banking at Lazard, which is helping Mr Icahn in his campaign to shake up the media firm.

Alan Greenspan retired as chairman of America's Federal Reserve. On his last day the central bank decided to raise its key **interest-rate** by one-quarter of a percentage point, to 4.5%. The accompanying statement dropped references to Mr Greenspan's "measured" policy on rate increases, indicating that Ben Bernanke, his successor, is free to set his own agenda. See article

Taking another breather?

America's GDP grew at an annualised rate of 1.1% in the fourth quarter, the smallest rate of growth for three years. The figure reflects a dampening of consumer spending. As a result, **non-farm business productivity** fell by an annualised 0.6% in the same quarter, the first decline in nearly five years.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Democracy and Islam

The one thing Bush got right

Feb 2nd 2006
From The Economist print edition

For all his other foreign-policy mistakes, George Bush is right about democracy

"AND always keep a-hold of nurse, for fear of finding something worse." To judge by their reaction to his state-of-the-union message, some critics of George Bush's foreign policy have been paying rather too much attention lately to Hilaire Belloc's rhyme. In his speech, Mr Bush said again that America was committed to the "historic long-term goal" of spreading democracy. But in the Middle East, ask his critics, hasn't his democracy agenda ushered in something worse than the previous pattern of rule by strongmen: the rise in Iraq, Egypt and now Palestine of a form of political Islam that is hostile both to the West and to the underlying values of democracy itself?

The detailed answer to this question has to be long, if only because the thing people call "political Islam" comes in so many different shapes and sizes (see article). The short answer, however, is no. Mr Bush has made many big mistakes in the Middle East. They range from inept planning and follow-through in Iraq to supine neglect of Palestine. But his democratisation policy is not one of them. In fact, it may be the one big thing that this president has got right in the region.

The least bad system

Democracy's defining feature—the freedom to hire and fire your government—does not guarantee that countries will make wise choices, or that democracies will be good neighbours. The lesson of the 20th century is that no people is immune from falling under the spell of some hypnotic voice or pernicious doctrine. In 1933 Germans freely elected the Nazi Party, which went on to reduce Europe to rubble. But only the most twisted history could blame democracy rather than dictatorship for the depredations of Hitler, Stalin and Mao Zedong. The merits of democracy are obvious and the appeal of it seems universal. So why do the familiar arguments have to be rehashed all over again in the case of the Middle East?

One reason people on the left object to Mr Bush's "freedom agenda" is that they see it as a veil for something else: an American policy of stomping about the world deposing unfriendly regimes at will. If such a policy existed, it would be wrong. But Mr Bush's agenda so far consists mainly of using the bully pulpit of superpowerdom to extol democracy's virtues. His administration has deposed only two regimes—the Taliban in Afghanistan and Saddam Hussein in Iraq—and in neither case was spreading democracy his principal motive, given or real. It was much more old-fashioned than that.

Rightly or wrongly, both regimes were seen as threats to America. Afghanistan, which gave safe haven to al-Qaeda, surely was. As for Iraq, when weapons of mass destruction failed to materialise, Mr Bush talked up the humanitarian case for having got rid of Mr Hussein and conveniently forgot about his WMD case. To that extent, he is to blame for the cynicism his freedom talk now engenders. But the fact remains that he had to install some sort of successor regime in these two countries, and instead of imposing a friendly strongman, as America did in cold-war days, he plumped for democracy. Some of the consequences are messy. It was presumably no part of Mr Bush's design to deliver power in Iraq to Islamists friendly to Iran's ayatollahs. But the decision to allow Afghans and Iraqis a free choice was surely right in principle.

Will it turn out right in practice? Here from the opposite direction comes a second criticism, this time from the foreign-policy realists. However fine in the abstract, democracy is delivering dangerous results. Fanatical religious types rather than secular liberals are expanding into the space American guns and influence have forced open in the politics of Iraq, Egypt and Palestine. This will split multi-sectarian Iraq apart, set Arab against Jew in Palestine and deliver Egypt into the anti-western hands of the Muslim Brotherhood. Like Jimmy Carter's human-rights foreign policy in the 1970s, George Bush's democracy policy will be remembered for its dangerous naivety—a luxury a superpower cannot afford.

Even in the Middle East

In time, the realists may be proved right. An Arab country might one day vote in an al-Qaeda government and make war on America. But where is their evidence? Having attempted an insurrection in Saudi Arabia, al-Qaeda is growing less popular there. Iraq under the dictator was neither at peace nor friendly to the West; the present haggling between elected parties may be the only realistic way to bind a fissiparous country together. In Egypt, the good showing of the Brotherhood in December's election was a salutary warning to the eternally ruling Hosni Mubarak that it is not such a clever idea to keep locking up your liberal opponents. Where Islamists do well, it is often because they are the only opposition left standing.

As for last week's election in the Palestinian territories, this did not create the Hamas problem: the organisation was murdering Israelis long before winning power. It remains to be seen whether victory will make it more murderous. Having to keep voters sweet may instead force it to pay less heed to its ideology of destroying Israel and more to the Palestinians' real needs and achievable goals. If it does not change it can be cajoled and punished accordingly. A democratic mandate does not license any government to make war on its neighbour or ignore its obligations under international law.

It is sometimes argued that political Islam is itself a pernicious doctrine, logically incompatible with the values of democracy, and that this is what makes its promotion in the Arab world a futile exercise. Many Islamists do insist that because God alone can make law, men who make their own laws are apostates. But this idea is held only by a minority in the world of Islam, where democracy has in recent years both spread and put down powerful roots in countries as far apart as Turkey and Indonesia. There is no obvious reason why the Arab world must remain an exception.

Holding elections is not a panacea. Democracy cannot at a stroke heal national conflicts, create civic institutions or modernise traditional societies. But whatever else people think of Mr Bush, on this one thing—the universal potential and appeal of the democratic idea—he is on the side of history.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japan after livedoor

Saving it from the shadows

Feb 2nd 2006
From The Economist print edition

Japanese firms really are cleaner, more determined and more focused. But they need better regulation

PESSIMISTS about Japan's current economic recovery have had a disappointing few weeks. Convinced that faster economic growth, stronger corporate balance sheets and cleaned-up banks were just a mirage, their eyes brightened on January 16th when the country's most high profile young entrepreneur for years, Takafumi Horie, was raided by prosecutors and later arrested on suspicion of securities offences, bringing about turmoil on the Tokyo Stock Exchange and recriminations among politicians and in the media. Didn't the collapse and exposure of his internet-based conglomerate, livedoor [sic], show that pro-market reforms had gone too far? Alternatively, might the attack on Mr Horie have been politically motivated or prompted by corporate dinosaurs, showing that nothing has really changed in corrupt, murky Japan?

It has all been a great tale, played out in just the sort of blaze of publicity that the T-shirted Mr Horie used to good effect in 2004-05 when he was building his firm with masses of small acquisitions amid a series of failed big ones. Unfortunately, real life has not followed that rags-to-riches-to-rags script. The turmoil in Japanese shares was over within three days and the market has resumed its rise. The economy keeps on looking stronger, not weaker, with this week's figures showing healthy rises in output and consumer spending, and a jobs market where vacancies match applicants for the first time in 13 years and wages are rising at last. And a closer look at what Mr Horie is accused of shows him to be the opposite of what his detractors claim: not an innovative American-style capitalist but rather a traditional Japanese book-cooker, one whose methods show that Japanese rules have changed too little, not too much (see article).

Old practices need new laws

Mr Horie's sole true innovation lay in his use of publicity. Out of the failure of his bids for a baseball team and then a television company he built notoriety, a big rise in visits to his internet portal, and a general sense that although his underlying business remained a mystery he might be on to something so his shares were worth a punt. If that underlying business was a chimera—it still isn't clear—then his crime was to blend the ancient capitalist art of confidence-trickery, seen in pyramid schemes and South Sea Bubbles since the beginning of time, with the sadly traditional Japanese art of obscure accounting and market manipulation. Virtually every Tokyo financial scandal of the past 20 years has featured those arts.

What he also exploited, though, was the failure of Japanese securities law and its enforcement to move with the times. His practices were pretty traditional, but he used them with a speed, aggression and visibility that were new. Many of the things he is known to have done were perfectly legal, such as using after-hours share trading to build up large stakes in target companies, or exploiting artificial liquidity shortages after stock splits. In a properly regulated financial market they would not be. Nor would his accounting have been allowed to be as obscure as it was, whether or not it is proven to have been illegal.

As a result, the right response by policymakers to the demise of livedoor should be to tighten regulation—but that means making new reforms, not rolling back past ones. In a broad sense, what has happened in Japan in the past 20 years is a shift away from a system in which bureaucrats and their corporate and political pals ruled the place informally, using their discretion to guide behaviour, to one in which laws are clearer and their interpretation and enforcement is more open. In the past five years, for example, much of the country's commercial code has been rewritten to make more explicit the responsibilities and powers of companies, boards and their shareholders, giving courts a bigger role in sorting out disputes and malpractice. But that effort, tedious and technical though it is, needs to go much further. New rules are needed to define the role and nature of an outside director, for example, to ensure equal treatment of all shareholders during a takeover bid or merger, to regulate the use of stock splits, and to make stricter demands about financial reporting by listed companies. Just as important, the means of enforcing existing and new rules needs to be strengthened: Japan's equivalent of America's Securities and Exchange Commission, the Securities and Exchange Surveillance Commission, needs a lot more staff and money. The same is true of the Fair Trade Commission, the country's trustbuster.

Japan needs new entrepreneurs—and has them

Some may think that this will contradict the efforts of Junichiro Koizumi, the prime minister, and his fellow reformers to reduce the role of the Japanese state. It shouldn't: Japan doesn't need a smaller state, at least not as measured by numbers of employees or public spending, for both compare well with other rich countries, but rather one that behaves differently. It should be setting clear rules and then enforcing them, not interfering at will with financial markets or the wider economy, as in the past.

Others may worry that new regulations, combined with the downfall of Mr Horie, will discourage young entrepreneurs and generally dampen corporate Japan's “animal spirits”. Yet neither need be so. The country has plenty of eager young entrepreneurs or go-getting managers, many of them shed by failed banks and other firms in the 1990s and now keen to make their own way. Some can be seen working for private equity firms or for funds putting pressure on corporate boards, others in scores of services and technology firms. Big companies too have not just cut costs and repaid debts: they have got rid of the sprawling networks of subsidiaries that were built up in the 1980s, and many have turned themselves into more focused, profit-oriented entities. A new mood is abroad in corporate Japan, but it is a mood that craves clarity: clarity about what the rules governing corporate behaviour actually are, about whether those rules will be enforced, and whether the courts can be appealed to efficiently during disputes. That, above all, is the lesson of livedoor.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Dealing with Iran

A rare diplomatic unity

Feb 2nd 2006
From The Economist print edition

But a defiant Iran will not be convinced by words alone

IF DIPLOMACY is ever safely to defuse Iran's nuclear ambitions, this week's rare display of unity by the five permanent, veto-wielding members of the UN Security Council—America, Russia, China, Britain and France—could prove the turning point. By agreeing to call on the 35-nation board of the International Atomic Energy Agency (IAEA), meeting in emergency session, to report Iran's past illicit nuclear activities to the UN, they delivered a long overdue message. If Iran presses ahead with its uranium enrichment (for peaceful purposes, it claims; for bomb-building is the widespread suspicion), it can expect diplomatic isolation and possibly worse.

Defiance is Iran's trademark. Negotiations led by Britain, France and Germany and backed by America collapsed in August, when Iran resumed work to convert uranium ore to gas for later enrichment. In January, by removing IAEA seals on its pilot enrichment plant at Natanz, it helped drag Russia and China off the fence. Growing evidence that Iran is working on ways to deliver warheads by missile, and calls by Iran's president for Israel to be “wiped off the map” of the Middle East, have heightened alarm. A Russian compromise, to enrich uranium on Iran's behalf so as to create space for more talks, was brushed aside. Iran has merely used talks about such talks to try to divide Russia and China from Europe and America.

A hostile West, Iran has long claimed, wants to deprive it of its “legitimate” nuclear rights. This week's concerted diplomacy gives the lie to that. No one wants to see Iran's regime get its hands on the bomb. Iran has already been found in non-compliance with its nuclear obligations at the IAEA. The purpose in reporting that to the Security Council now, while deferring any action until next month, after another fuller report and discussion at the IAEA, should be two-fold. To give Iran a last chance to step back from the nuclear no-go line and co-operate fully with inspectors. And to strengthen the inspectors' authority, should Iran spurn that offer too.

Over the past three years inspectors have dug up a lot of evidence of Iran's wrongdoing. Yet the breakthroughs have come from information supplied by dissident groups, by foreign intelligence agencies and by clever sleuthing—not willingly by Iran. Now Iran is threatening to withdraw its co-operation with inspectors. Caught similarly red-handed three years ago, North Korea blew a raspberry at the world and pulled out of the Nuclear Non-proliferation Treaty altogether.

What can now be done? Pierre Goldschmidt, formerly in charge of investigations into Iran's safeguards breaches at the IAEA, argues that any country found in non-compliance with its nuclear obligations ought to be obliged by the Security Council to accept toughened inspections, maintain safeguards on all nuclear facilities and give up sensitive nuclear activities, such as

producing uranium or plutonium (another bomb ingredient Iran has shown an interest in), for at least ten years. Passing such a resolution would set clear rules for Iran, and could help deter the next nuclear miscreant too.

For all this week's apparent unity, Iran may still calculate that, if push comes to shove, Russia and China will never back words with sanctions to enforce them. Both have big energy and other interests in Iran. So do several European countries, Japan, India and others. The best way of getting what all these countries want—a negotiated end to this stand-off—is by convincing Iran that it will pay a higher price for its defiance. Resolute words need resolute back-up too.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cross-border mergers

Heavy Mittal

Feb 2nd 2006
From The Economist print edition

Nothing raises the hackles like cross-border bids

Reuters

"THE price which society pays for the law of competition...is great; but the advantages of this law are also greater still than its cost—for it is to this law that we owe our wonderful material development." If Lakshmi Mittal, an Indian-born entrepreneur who is putting together history's greatest steel empire, follows the vision of Andrew Carnegie, then the hope is that the rest of the world returns the compliment by heeding the 19th-century industrialist's arguments.

Yet right now that hope seems a vain one. Mr Mittal's €18.6 billion ($23 billion) hostile bid for Arcelor, Europe's champion steelmaker (formed, in turn, from the champions of France, Spain and Luxembourg in 2002) has Carnegie's sweep and audacity. Shocking in its abrupt timing—Arcelor had only a day earlier declared victory in its own hostile bid for Canada's Dofasco—this is a deal that promises to transform its industry (see article). If Mr Mittal succeeds, he will have created a producer more than three times the size of its nearest rival and as big as the entire Japanese steel business.

Mr Mittal's trouble is that his bid has aroused a chorus of patriotic outrage. Luxembourg's prime minister, Jean-Claude Juncker, scorned the offer as incomprehensible and vowed to use "all necessary means" to fight it. But at least Luxembourg, as the owner of 5.6% of Arcelor, is directly involved. Thierry Breton, France's finance minister—and, as a former businessman, supposedly a liberal—cannot claim even that excuse. That did not stop him voicing "profound concerns" and lecturing Mr Mittal about his takeover etiquette. French socialists said that in Europe's "hour of truth" Arcelor had to be protected "even if it couldn't be protected legally".

In a land where protecting the "culture" has come to mean saving the national yoghurt from PepsiCo, all this is an inevitable piece of theatre, you might think. But it is worse than that. The angry response to "foreign" bids is limited neither to France nor to steel. Furthermore, the sort of nationalism that begets it corrodes the very globalisation that Carnegie would have recognised as a source of the greater prosperity.

Bessemer unconverted

Almost everywhere you look, some government or other is moaning about nasty "foreign" takeovers. (Canada is an honourable exception, see article.) In Europe, Italy schemed against the

bids of Spanish and Dutch banks. German politicians have sounded alarms about private equity “locusts”, mainly American ones. Even America has occasionally fallen for it, fretting about Lenovo, of China, buying IBM's PC division and sending state-owned China National Offshore Oil Corporation (CNOOC) off with a flea in its ear for having even thought about buying Unocal.

The arguments against foreign bidders tend to boil down to three: we don't trust them with our strategic industries; we don't trust them with our jobs; and we don't like the look of them. (For an example of the last of these, look no further than Guy Dollé, head of Arcelor, who this week played on how Mittal, with a Dutch listing and run out of London by someone of Indian extraction, is not really European.)

Chauvinism is easy to dismiss. But what of the other two arguments—security and employment? The steel industry itself illustrates how slippery such ideas are. There was an age of battleships and tanks when steel was indeed strategic in the proper military sense. Most of the time, however, the claim is looser and more flimsy. Arcelor's steel, like Unocal's oil, can be bought on the open market. And three decades of disastrous state entanglement in the steel industry show how successfully you can safeguard jobs through subsidies and barriers.

If they were wise, European politicians would now be letting Mr Mittal's bid succeed or fail purely on its business merits. An eager buyer while prices are high: surely this is the ideal chance to get European steel out of politics, once and for all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Afghanistan

Heading south

Feb 2nd 2006
From The Economist print edition

Despite much recent progress, Afghanistan is intolerably insecure

IN SELF-CONGRATULATORY mode, officials from Afghanistan and from the countries trying to rebuild it gathered in London this week, for a conference entitled “Building on Success”. Quite right too: no government wants to be involved with failure, and if Afghanistan is not to fail again, despite many recent advances, it needs more and better foreign involvement.

Above all, it needs security. For four years, American and allied troops have kept Taliban, al-Qaeda and other wolves at bay, allowing the formation of an elected government, reconstruction and growth at the centre. Northern Afghanistan, where America found local helpers to topple the Taliban, is also quite lawful and open to trade. But southern Afghanistan, where the Taliban emerged, is still at war. America has killed thousands of enemy fighters there without seeming to reduce their number a jot. Indeed, with an increase in suicide and roadside bombs, their capability has improved. More American soldiers were killed in Afghanistan last year than in the previous three. This violence keeps aid agencies, one of Afghanistan's two main sources of growth, away—and soldiers rarely dispense aid wisely or well. In southern Afghanistan, opium, the other main source, which threatens to turn the new state into a racket, is grown freely. This is not a success; it is a failure on which Afghanistan's future may turn.

Belatedly, some of Afghanistan's friends have recognised this. NATO, which has peacekeepers in the safer bits of the country, is due to advance south over the next few months. Its peacekeepers will aim to establish basic security, while American troops continue to hunt for members of al-Qaeda and the Taliban. Britain has already committed 3,300 troops to this mission, Canada 1,200, Australia and Denmark a few hundred each, while the Netherlands was this week agonising over whether to send 1,200. However, Germany, France, Italy and Spain declined to have their soldiers enter the badlands. That is a pity. After September 11th 2001, it should have become clear that the whole world's security will be compromised if Afghanistan is allowed to fail again.

Those NATO contingents that are heading south will have their work cut out. Helmand province, where the British troops will go, is both one of the wildest and a centre for the opium trade. NATO's forces will be too thin on the ground to eradicate that problem. The opium threat will have to be tackled, in the end, by the Afghan government, by means of policing and by finding other sources of cash for poppy-growing peasants. But NATO must lend every assistance in training and providing logistical and intelligence support to the government's fledgling counter-narcotic and other forces.

For its part, the government of Hamid Karzai should realise that how it responds to such assistance will determine how much more help is to come. Ruling Afghanistan, a land with more age-old feuds than competent policemen, is a tricky task. Still, Mr Karzai has appointed far too

many corrupt and ineffective ministers and governors.

The hole in the dyke

All these steps are necessary. But they will not be sufficient so long as the Taliban and its allies continue to find refuge in a neighbouring country, Pakistan. It will not be possible to seal the rugged and unfenced border between the two countries entirely. But the truth is that Pakistan, a notable recipient of American aid, has only intermittently attempted the task. For once and for all, America and its allies, especially those sending soldiers the Taliban's way, must call an end to this farce.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

On Alan Greenspan, Robert Frost, Kashmir, Saudi Arabia, Ariel Sharon, socialism, public relations

Feb 2nd 2006
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Evaluating Greenspan

SIR – Your mean-spirited valediction on Alan Greenspan suggests to me that he got it right after all ("Danger time for America", January 14th). *The Economist* has been criticising America's economic performance for years, warning about the trade deficit, worrying about consumer debt and frequently predicting disaster for financial markets—yet the economy thankfully ignores you. Perhaps it is time for you to have a re-think? In a global economy dominated by footloose investors, capital flows dominate trade deficits and these capital flows are attracted by high investment returns. American innovation and productivity, underscored by low taxes and stable monetary value, have attracted massive capital flows. As a consequence, the high returns in America's financial markets have reduced the need to save out of current income, a contrast to the low return, high inflation era of the 1970s.

Mr Greenspan's greatness should be measured by his successful adaptation of American monetary policy to this world now dominated by capital flows, and especially at a time of increasing challenges from a growing dollar-zone through China and other dollar-linked emerging economies. Similar structural threats floored markets in the 1930s. Today, thanks to Mr Greenspan, we are still standing.

Michael Howell
Managing director
CrossBorder Capital
London

SIR – Bravo for your harsh critique—Mr Greenspan was the key villain in creating economic bubbles. The policies of the Federal Reserve between 1997 and 2000 fuelled a boom in over-investment that predictably collapsed and a bubble in stock gauges that predictably crashed. Among the ultra-easy actions the Fed took was the excessive and sustained rise in broad money times an unprecedented soaring of monetary velocity. Sizzling money velocity largely reflected the manic rush to buy stocks for quick riches. Non-financial corporate borrowing exploded, with much of the money used to buy back stock at bubble prices.

Robert Parks
Professor of finance
Pace University
New York

SIR – From birth, Americans are steeped in a culture of consumption. During the housing boom it

would have been an act of treason, not to say un-American, for Mr Greenspan to “take away the punch bowl” (William McChesney Martin's phrase, much quoted during the 1990s). We are who we are in America and we succeed and fail based on our most salient national characteristics. The good news is that we're not wild about tulips or colonial trading schemes.

Anthony Esposito
New York

A poem on a wall

SIR – Contrary to what your leader on border fences stated, Robert Frost was actually in disagreement with the view expressed in his poem that “good fences make good neighbours” (“From sea to shining sea”, January 14th). In “Mending Wall”, it is Frost's neighbour who speaks the line, “Good fences make good neighbours”. Frost then asks, “Why do they make good neighbours?” and continues:

> Before I built a wall I’d ask to know
> What I was walling in or walling out,
> And to whom I was like to give offence.
> Something there is that
> doesn’t love a wall,
> That wants it down.

Catarina Roseta Palma
Lisbon

The other side of the coin

SIR – Your article on Kashmir gave the impression that Pakistan wants peace and India doesn't (“The long game”, January 21st). May I remind you that over the past 60 years it has been Pakistan that has started all of the wars with India, the latest being the Kargil incursion in 1999, and India has never attacked anyone. I think you view the country through the tinted glasses of the cold war era.

Pradeep Kabra
London

Slow democracy

SIR – Your survey on Saudi Arabia argues that “far from being a dinosaur nation, lumbering to extinction, Saudi Arabia is capable of rapid evolution” (January 7th). The anecdotes you told of a senior prince slapping the cheek of a prominent businessman for praising Dubai, and of a high-school teacher being sentenced to jail and lashes for favouring Christians and Jews, suggest that “rapid” might not be fast enough.

Moreover, you state that after a crackdown in the mid-1990s, “the Al Sauds themselves became a prime target” of Osama bin Laden and his followers. It is a curious fact, perplexing to many analysts, that although al-Qaeda has condemned the House of Saud for being corrupt and called for its overthrow, there has never been a reported direct attack on any member of the Saudi royal family. You chose the metaphor of “A long walk” as the title of your survey, but this essentially fails to capture the basic tension between Wahhabi conservatism and the modern world in Saudi Arabia. Perhaps “Back to the future” would have been more appropriate.

Simon Henderson
Senior fellow
The Washington Institute for Near East Policy
Washington, DC

Defending Sharon

SIR – I was struck by the personal nature at the start of your article on Israeli politics: “Obese, waddling, pompously leaden of rhetoric, with a war record that some consider criminal and a squint that broadened with every passing year: outsiders never found it easy to comprehend what Israelis saw in Ariel Sharon” (“Searching for the middle ground”, January 14th). I accept that you might strongly disagree with Mr Sharon's policies, but does that give you license to criticise his physical characteristics? Suppose he walked with a limp or spoke with a lisp, would that have been fair game?

Barry Dubin
Osprey, Florida

SIR – It is easy to comprehend what Israelis see in Mr Sharon. They see a war hero credited with a bold military manoeuvre that turned the tide of the 1973 Yom Kippur war on Israel's southern front after the surprise invasion by Egypt and Syria. It is not hyperbole to suggest that he was instrumental in saving Israel at a time when military defeat would surely have meant the extermination of the state.

Deborah Tishman
Toronto

Pathological politics

SIR – I read your article on the fear of markets with great interest (Economics focus, January 14th). Alas, the phenomenon is not new. A variant of the condition is popularly known as “socialism”.

Flavio Toxvaerd
Cambridge, Cambridgeshire

The truth be told

SIR – You asked what sort of business is the public relations industry (“Do we have a story for you!”, January 21st)? The late Malcolm Muggeridge knew; he said it was organised lying.

Donald Hoskins
Edinburgh

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Political Islam

Forty shades of green

Feb 2nd 2006
From The Economist print edition

AP

Islam's main political arms differ greatly in both tactics and aims. But that should not reassure America

Get article background

EVER since the terrorist attacks of September 2001, George Bush has been telling Osama bin Laden and his al-Qaeda terrorist network they will fail in one of their main aims: to trigger a broad global conflict between America and its allies, and Islam. The president has called Islam a peaceful religion, bringing “hope and comfort” to over a billion people.

To judge by opinion polls, many Muslims around the world are unimpressed. To them, America's actions in the Middle East tell a different story about Mr Bush's attitude to their faith. And the president may not be right when he says that a broad clash of civilisations can be avoided. To anyone skimming the headlines in recent weeks, it seems as though believers in an imminent clash between Islam and the West have plenty of new evidence to support their case.

Iran—the country whose 1979 revolution put political Islam on the modern map—is cocking a snook at its western critics. Its president vows to destroy Israel and its nuclear researchers have defied the world by going back to work. In its present mood, Iran shows little interest in seeking “rehabilitation” by addressing the long list of western complaints, which include sponsoring terror.

Meanwhile, the leaders of al-Qaeda appear on videotapes to tell their supporters that the war against “crusaders” and Jews is very much alive. Mr bin Laden warns that deadly attacks on America are still being planned. His deputy, Ayman al-Zawahiri, appeared on the screen this week to declare that he has survived an American attempt on his life and that Allah, not Uncle Sam, would set the hour of his death.

At the same time, an Islamist movement that many western governments regard as terrorist and untouchable is savouring its stunning victory in the Palestinian elections. The Hamas triumph has brought delight to all its fellow members of the international fraternity known as the Muslim Brotherhood—from the refugee camps of Amman in Jordan, where sweets were eagerly handed out by local Brotherhood leaders, to their well-organised counterparts in the Islamic diaspora in Europe. Whatever Hamas now does, its success may be remembered as the biggest victory for political Islam since Iran's Ayatollah Khomeini brought to the modern world the idea that Islam might be a formula for governance, law and spreading revolution.

For all these reasons, outside observers might be forgiven for thinking that political Islam, in various violent forms, was on the march against the West. In fact, the Islamist movement, though it may look monolithic from afar, is highly quarrelsome and diverse, and in many ways its internal divisions are deepening.

By no means everybody in the Muslim world rejoiced at the Hamas victory. It was disturbing in at least two different quarters. One was the corridors of power in Arab states, such as Jordan and Egypt, where the Brotherhood is already a powerful grass-roots movement and is steadily gaining confidence. In Egypt's partially-free elections last November, the Brotherhood did far better than expected; and in Jordan, where the Brothers have long been treated as an innocuous vent for letting off anti-Israel and anti-western steam, the movement is demanding a higher profile.

Even more dismayed by the Hamas victory, it seems, are the al-Qaeda terrorist network and its sympathisers. They were already furious with Hamas for compromising with secular liberal ideas by taking part in multi-party elections, and the fact that Hamas has played the democratic game rather successfully will only increase their dismay.

Here lies a paradox. The two best known forms of political Islam (broadly speaking, al-Qaeda and the Brotherhood) have common ideological origins. Both have their roots in the anti-secular opposition in Egypt, a conservative reading of Sunni Islam and the wealth and religious zeal of the Saudis. But they differ hugely over politics and tactics.

Tactical allies, doctrinal enemies

The ideologists of al-Qaeda reject the division of the world into modern states. To them, the only boundaries that matter are between Islam (of which they believe they are the only authentic representatives) and infidels. By contrast, Hamas and Brotherhood thinking is pragmatic, accepting the reality of national boundaries.

Then compare political Islam among the Sunnis to the Shia variety, of which Iran is the vanguard. Vast religious differences, stemming from a split that occurred in the seventh century, separate these groups. They still give a sharp edge to the conflicts of the present day, most obviously in Iraq, where thousands of lives have been lost in Sunni-Shia violence.

In its doctrine and ethos, the simple, back-to-basics Sunni Islam from which the Brotherhood and al-Qaeda sprang is about as different as any Muslim practice could be from the sophisticated, scholarly world of the Iranian Shias, with their elaborate clerical hierarchy and long tradition of studying and adding to a corpus of texts. But when it comes to operational matters, especially

against Israel, terrorist groups sponsored by Iran have no qualms about tactical co-operation with their Sunni counterparts. Hamas, for example, has good working relations with the al-Quds Force, an external arm of the Iranian Revolutionary Guard. And suicide bombings against Israeli civilians, now regarded as a Hamas trademark, were probably inspired at first by Hizbullah, an Iranian-backed, Shia movement based in Lebanon.

Yet doctrinal differences matter. In recent weeks, there has been an escalation of the war of words between al-Qaeda supporters on one hand and Hamas and the Brotherhood on the other. In January, a London-based website that reflects jihadist views—the belief in a broad, inexorable conflict between Islam and the West—cited 102 clerics, living and dead, to support the view that good Muslims should not take part in elections. For this ideological camp, any electoral exercise merely reinforces the blasphemous way of thinking that places human choices and regimes above the law of God. In the words of Stephen Ulph, an analyst of Islam at the Jamestown Foundation, a think-tank, al-Qaeda's message to Hamas is something like this: “You're still playing the western game—we can put away the chess board.”

Now that Hamas faces the reality of power and day-to-day challenges of administration, it must decide how much more of a “western game” it is prepared to play. It has already watered down its Islamist fervour by entering policy debates with its secularist, Palestinian-nationalist rivals in the Fatah movement, and may soon be deliberating the pros and cons of a tactical compromise with Israel.

And part of that dilemma will be ideological. Hamas leaders will need a theological licence from the Brotherhood's spiritual guides for the political choices they make. At the same time, the world Brotherhood has a huge stake in the success of a Hamas government which could be a model of political Islam. For exactly that reason, predicts Ziad Abu Amr, a Palestinian legislator close to Hamas, the Brotherhood is likely in the end to provide “doctrinal cover and political support” for whatever decisions Hamas takes. But if those decisions include compromise with Israel, the doctrinal bit will not be easy. Despite its rejection of violence in most circumstances, the Brotherhood's bottom lines have included deep ideological opposition to Israel's existence and a demand for Muslim control over Jerusalem.

Given that theology will play a role, at least, in these deliberations, it is worth studying the ways in which different Islamist movements converge and differ. Al-Qaeda and the Brotherhood, for example, are both loosely articulated international movements which claim to operate, often through proxies and ideological soul-mates, in scores of countries. Both have emerged out of the conservative wing of Sunni Islam, which believes in sticking to the letter of the earliest texts as the main form of spiritual guidance.

In other ways, al-Qaeda and the Brotherhood are entirely different phenomena. Al-Qaeda is first and foremost a movement which sponsors and co-ordinates acts of violence, not just in the Islamic heartland but anywhere it can hit back at the western enemy. In the ideology of the Brotherhood, including Hamas, resort to violence is justified only in the exceptional circumstances of “self-defence” and “occupation”—conditions which are deemed to exist in Israel, the West Bank and American-occupied Iraq.

Rooted in shock

The ideological process which gave birth to al-Qaeda and the Muslim Brotherhood is worth retracing. Both grew out of Muslim shock at the advance of European colonialism in the 19th century and, in 1923, the fall of the last Ottoman caliph. To make matters worse, Britain and France then planted their flags in the Muslim heartlands as occupiers of the Levant.

Out of those shocks came, first, a movement called Salafism, which insisted that only the Prophet himself and the two generations that followed him should be relied on for spiritual guidance. Salafism is not necessarily violent, but became so when allied with the stark, puritan, uncompromising variety of Sunni Islam, known as Wahhabism, practised by the Saudi clergy. To that potent Egyptian-Saudi mixture was added the galvanising experience, for many young Muslims, of joining the American-backed war against Soviet forces in Afghanistan in the 1980s.

Al-Qaeda's two main leaders personify that story: Mr bin Laden, the pampered son of a wealthy Saudi clan who found a new persona in Afghanistan, and Mr Zawahiri, an Egyptian doctor whose ideological roots lay in the Brotherhood and in resistance to his own country's secular regime. Mr Zawahiri is an example of one part of the Brotherhood's transition from peaceful struggle to violence—at first against the Egyptian government and other secular Arab regimes, and then by extension against the West.

This teaching was sharpened by Sayed Qutb, an Egyptian thinker who was hanged 40 years ago but still inspires Muslims with his stinging denunciations both of western hedonism—he wrote a famous outburst against American youngsters and their dance parties—and the decadence of supposedly Muslim regimes. Whether among Hamas voters in the Gaza slums or among Brotherhood thinkers, the ideas of Qutb enjoy huge influence.

The Brotherhood claims to have millions of adherents all over the world. Since it cannot operate openly in many places, the figures are vague. To borrow an expression from Marxism, the political strategy of the Brotherhood is “entryist”—it believes in participating in any democratic process that is available, and in taking advantage of the freedom the western world allows. “There are members of the Brotherhood in many western countries, but they don't operate under that name—they work within different groups to spread their ideas,” says Kamal Helbawy, a London-based Egyptian who for years was among the few people in the West who spoke openly in Brotherhood's name.

Mr Helbawy's own career is a good example of the movement's advance. The movements he has overseen were bankrolled by Saudi largesse. After working in Nigeria to promote Muslim education, he was invited to Saudi Arabia in 1972 to set up the World Assembly of Muslim Youth, one of several bodies that spread the faith in a stark, simple form. As head of WAMY, he spent a couple of decades in Saudi Arabia. There he mentored young Muslims from all over the world who later became influential in countries such as Malaysia, Indonesia and Turkey.

Shadowy, but not secret

At least in the western world, the Brotherhood seems to form a kind of parallel structure that would be familiar to historians of Northern Ireland's Orange Order or the South Africa's Broederbond, both fraternities in which evangelical Protestantism played a secret, binding role. On joining the Brotherhood, followers are required to take an oath which pledges them to “work for God's message” and “believe and trust in” the movement's leaders. A Brotherhood member is expected, with his comrades' help, to cultivate ten virtues, including bodily health, a sound mind and punctuality.

In the diaspora at least, the practice of working through other movements and fronts has had some spectacular success, and has brought the Brotherhood and its proxies a degree of influence that far outweighs the number of its members. The Muslim Association of Britain was one of two main organisers of the “Stop the War” demonstrations that brought millions of Britons on to the streets to oppose the invasion of Iraq.

Mr Helbawy co-founded the MAB in 1997 as a movement close to, but not part of, the

Brotherhood. On the French scene, easily the biggest single force in Muslim politics is the Union of Islamic Organisations of France, which denies formal ties with the Brotherhood but clearly has ideological links and is seen warily by French Muslims of other stripes. Both the method and the aims of the Brotherhood's work will vary with local circumstances.

The movement's belief in working through democracy and freedom of speech, says Mr Helbawy, is not just a short-term choice. Its founder, Hassan al-Banna, considered the parliamentary system the next best thing to an Islamic one. That does not mean that he thought democracy ideal. But even this belief in the legitimacy of multi-party politics enrages the likes of Mr bin Laden.

The stated aim of the Brotherhood is to re-Islamise society, and only thereafter the state. In this vision, the ultimate desirability of introducing *sharia* law, as laid down by the Koran, cannot be questioned. But the Brotherhood line is that this process should not be rushed: *sharia* can come into being only when the people have freely convinced themselves of its virtues.

The Brotherhood is certainly shadowy, but it is not a secret organisation. Its leader is an elderly Egyptian, Mehdi Akef, who presides over a series of councils dealing respectively with Egypt, the wider world and various categories of followers, including women, youth and professional groups. Its de facto spiritual guide, Sheikh Yusuf al-Qaradawi, is much better known, thanks to broadcasts and pronouncements on the internet which are followed by Muslims round the world. In perfect consistency with Brotherhood teaching, he has condemned terrorist attacks in western countries but excused them in Israel, Palestine and Iraq.

America as arbiter

Observing the ideological fights between al-Qaeda and the Brotherhood, and the physical fights between Sunnis and Shias, some American strategists might ask themselves: since they all oppose us and our allies, shouldn't we take comfort from the fact that they hate each other too?

In reality, things don't work that way. However little the arcana of Sunni or Shia theology are understood in Peoria or even in Washington, DC, the hard fact is that the American occupation of Iraq has made it appear, to many people in the Middle East, that America is now the main arbiter in the balance of power between the different components of the Islamic world. To put it another way, people who were already inclined to see almost every development in the Islamic world as America's work will be harder to dissuade.

Despite the darkening clouds in America's relationship with Iran, many Sunni Muslims are convinced that the Bush administration is subverting their faith by favouring the Shia cause in Iraq and hence promoting Iranian influence. In the slums of eastern Amman, for example, people hardly knew what Shia Islam was until recently. Now the word has spread that neighbouring Iraq is about to get a Shia-dominated government—and, moreover, that it is all America's fault.

Nor can America escape this opprobrium by tilting its Iraqi policy a few degrees in a more pro-Sunni direction. Anything that seems to favour the Sunnis can also be interpreted as giving heart to the Saudi establishment, royal or clerical. And that in turn will be seen as a boost to Saudi efforts to spread various forms of Sunni fundamentalism all over the world.

The contrasts between different varieties of Islam, and Islamism, are not trivial—either in their teachings or the behaviour they inspire. The western world needs to know about them, if only to know which outcomes and shifts of policy are conceivable, and which are not. But woe betide any western strategist who thinks the problems of the Muslim world can be addressed by a policy of “divide and rule”. The most likely result of that is that western countries will be blamed for divisions that have already existed, in one form or another, since the founding of Islam.

State of the union

Running on empty

Feb 2nd 2006 | WASHINGTON, DC
From The Economist print edition

Eyevine

Not many new ideas from the president. But that may serve George Bush and the Republican Party rather well

GEORGE BUSH likes to boast that he doesn't do “small ball”. Each of his previous four state-of-the-union addresses has had a big idea at its core—from cutting taxes to fighting terrorism to overhauling Social Security. And most of them have also contained big surprises—such as his identification of an “axis of evil” to his plan to spend $15 billion fighting AIDS.

This year the former impresario of the Texas Rangers had no choice but to play small ball. This is partly because this is his fifth outing; the big ideas have already been used. But it is mainly because he is being crushed under the weight of previous policies. America is in a fiscal hole (with a $319 billion deficit last year), thanks in large part to his tax cuts and spending increases; abroad, he is still struggling with the consequences of invading Iraq and unleashing democracy in the Middle East.

And yet Mr Bush seems to need a shot of political adrenaline. He goes into his sixth year in office with approval ratings of around 42%—lower than any post-war president except for the Watergate-logged Richard Nixon. Close to two-thirds of the population thinks America is headed in the wrong direction; half thinks that sending troops to Iraq was a mistake.

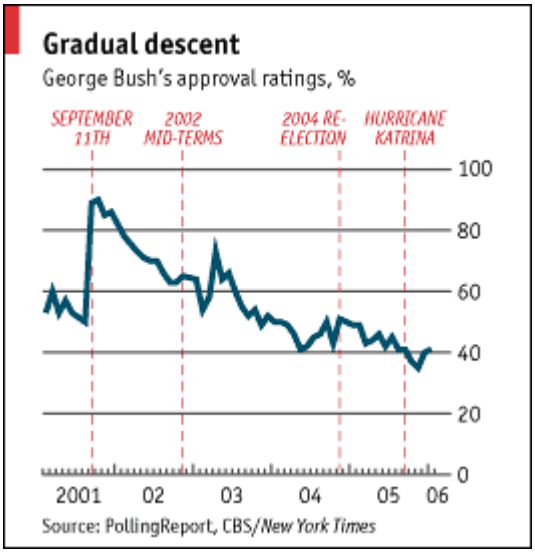
These dismal figures partly reflect Mr Bush's favoured political strategy of firing up his conservative base and letting the rest go hang. But they are also testimony to a dismal 2005—a year in which Mr Bush failed to sell Social Security reform, saw precious little progress in Iraq and

lost much of his reputation for competence (and compassion) with Hurricane Katrina.

Even in the best of circumstances history strongly favours the out party in the sixth year of a presidency, and these are not the best of circumstances. A significant majority of Americans tell pollsters that they would rather go in the direction outlined by congressional Democrats than that favoured by the Republicans. In Congress, the president's party is wracked by corruption scandals and it faces a contentious leadership race in the House that will bruise egos. Meanwhile, the legislative system is severely overloaded, with lobbying reform, immigration reform, appropriation bills, budget reconciliation and the Patriot Act waiting in the wings.

Mr Bush's main challenge with the state of the union was not easy: how do you come across as bold and purposeful when in fact you have boxed yourself into a corner? His answer was to recast his presidency as a bold alternative to the twin bogeymen of isolationism abroad and protectionism at home. This allowed him to repeat his familiar theme about democracy being an alternative to terrorism and to sing a paean of praise to the open economic policies that have helped America outperform its rivals. He also restated his support for a liberal immigration policy.

The latter is important: it suggests that he is willing to take on the wrath of the nativist right of his party. But the rest contained more rhetoric than substance. In a gesture towards Palestine, Mr Bush made the good point that there is more to democracy than just elections: there is the wider challenge of building a civil society. But the administration still seems flummoxed about what to do when Muslims use elections as an opportunity to elect extremists.



Indeed, Mr Bush spent a lot of time eschewing novelty and just blasting out the old favourite tunes. He urged Congress to renew his tax cuts, praised the Senate for confirming Samuel Alito and John Roberts to the Supreme Court, pointedly refused to compromise over the use of wiretaps, condemned Iran's nuclear ambitions, pledged himself to preserving the family and said he wouldn't have any truck with “creating human-animal hybrids”.

The Democrats duly sat pat while the Republicans stood up and cheered. But these conservative-pleasing bits of the speech represented a victory for the forces of the status quo rather than radicalism. For instance, Mr Bush called for the Iranian people to solve their own problems, but he didn't suggest ways to foment popular resistance to clerical rule, as many neo-conservatives had hoped. He also quietly bowed to reality on another radical proposal, reforming Social Security; in a neat Texan two-step, he announced that he was now in favour of setting up a commission to look at the impact of the ageing baby-boomers on entitlement programmes.

So was there any sign of a presidency advancing? The most dramatic phrase in the speech was his promise to free America from its addiction to oil, but there was little real change in energy policy (see article). Two others may yet be significant—strengthening private medical accounts to make it easier for people to buy health insurance out of their own pockets and directing resources to improve America's competitiveness in science and mathematics—but details on both are elusive.

So this year's state of the union will hardly go down as a classic. But that does not mean that it did not serve its purpose.

To begin with, state-of-the-union speeches are not as important as political types maintain.

Examine Gallup's “pre-SOTU” and “post-SOTU” ratings going back to Jimmy Carter's administration and you discover that, despite all the publicity, only ten out of 24 speeches boosted a president's approval rating; in 12 it was lower and two saw no change. And most of these flickers on the dial were within the margin of error. Ironically, one of the few examples of a state of the union making a big difference was last year: Mr Bush's rating jumped by six points. But this preceded the most disastrous year in his presidency.

Next, from a tactical viewpoint, Mr Bush's biggest challenge was arguably to avoid making big new commitments rather than to add yet more of them to an overextended administration. He passed this test with flying colours (and managed to look confident and jaunty even when saying not very much).

Another reason not to change course was that Mr Bush's presidency is on an uptick at the moment, albeit a small one. The biggest danger for such a polarising president was that his base would desert him. His lacklustre response to Hurricane Katrina, his overspending and his decision to nominate Harriet Miers, his personal lawyer, to the Supreme Court made this a possibility last year—especially when you add in the Republican corruption scandals.

War and the Defeaticrats

From this perspective, the most important scene was not Mr Bush holding forth before the chamber; it was Justices Roberts and Alito taking their seats before the presidential dais. The conservative movement was created as much by fury at the liberal courts as anything else. The double confirmation of Mr Roberts (who is 51) and Mr Alito (55) will move the court to the right on everything from racial preferences to the role of religion; it will shape American law and culture for decades to come.

Meanwhile, the Bush battleplan for the 2006 mid-term elections has begun to emerge. He wants to solve the Republicans' problems by focusing the troops on what they do best: laying siege to Democrats. Mr Bush's speech followed Karl Rove's address to the Republican National Committee on January 20th. The president's main political adviser promised an assault on the Democrats' weakest spot: the war on terrorism. America is at war, goes the argument, but the Democrats are obsessed with warrantless wiretaps. America faces a monstrous enemy, but Democrats are obsessed by blaming America. This doesn't mean that the Democrats are unpatriotic, observed a smiling Mr Rove. They are just wrong. It is a safe bet that we will hear a lot more about the “Defeaticrats” than health savings accounts in the next ten months.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Energy policy

The pusher-in-chief

Feb 2nd 2006 | WASHINGTON, DC
From The Economist print edition

The administration's energy policy remains a disgrace

Copyright, George?

"AMERICA is addicted to oil." Those may be the most memorable words of George Bush's state-of-the-union speech. Not quite as evocative as "axis of evil" perhaps, but still a fairly candid confession—especially from a man who spent much of his early life trying to prosper from that addiction.

The soundbite also came with a dramatic goal: to replace more than 75% of America's oil imports from the Middle East by 2025. To achieve this, Mr Bush unveiled something called the Advanced Energy Initiative, which promises a 22% boost in clean-energy research into two areas of America's energy-guzzling. "The best way to break this addiction," insisted Mr Bush, "is through technology."

One thrust will be changing American homes and offices. Mr Bush promised to boost spending on "clean coal" technologies, renewable energy and nuclear power. The second target is transport. He vowed to increase research spending on better batteries for hybrid and electric cars, as well as on hydrogen fuel cells. He also promised to help a new kind of ethanol—made from wood chips and switchgrass rather than the usual corn—become commercial.

Look closely, though, and it turns out that this grand new plan to end oil addiction is really no such thing. Take, for a start, that objective of replacing three-quarters of Middle Eastern imports of oil by 2025. Because oil is a fungible, globally-traded commodity, it does not matter where imports come from. Even if America got all its oil from Canada, Venezuela and Nigeria, an oil shock in Saudi Arabia would send the price of every barrel of oil skyrocketing—even Alaskan barrels. Only abandoning foreign oil completely would free America from the prospect of an oil shock.

The problem is not that the technologies identified by Mr Bush are necessarily the wrong ones. Quite the contrary. Some of the approaches he points to, such as "plug-in" hybrid cars and "cellulosic" ethanol, are quite promising.

The problems with Mr Bush's speech are the same ones that undermined his energy policy, which was passed into law as the Energy Act last year. That grotesque law handed out tens of billions of dollars in subsidies to every imaginable source of energy. But it did nothing to promote carbon trading; it did not mention carbon taxes; it had no tightening of vehicle fuel-economy rules.

In short, Mr Bush is still avoiding most of the regulations that might actually encourage the market to ditch dirty technologies in favour of clean ones. And he is still avoiding any attempt to

make Americans pay the true cost of the energy they guzzle. Until that happens, he is firmly on the side of the pusher, not the addict.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Detroit

All spruced up

Feb 2nd 2006 | DETROIT
From The Economist print edition

The Super Bowl city has transformed itself—at least on the surface

AP

Flash in the pan

SOMETIME soon, police will start cordoning off the centre of Detroit. Only those who can pass muster will be allowed anywhere near the downtown business district. Nervous spirits may think back to the long hot summer of 1967, when riots tore the Motor City apart and most whites left for good. But the barriers going up now along Woodward, Jefferson and Gratiot Avenues mark a very different occasion and an unexpectedly upbeat mood. This weekend, the Super Bowl is coming to downtown Detroit for the first time ever.

Football fans will find some surprises. The game will be played at the Ford Field stadium, still relatively shiny and new. And Woodward Avenue, the central drag running south-east to the Detroit river, has been transformed. Ever since J.L. Hudson's, the city's last downtown department store, closed its doors more than two decades ago, the downtown section of Woodward became a jumble of boarded-up buildings, pawnbrokers and wig-shops. In recent months, however, the newly-named Merchant's Row has reopened with condominiums and apartments over new shops, including a Borders book store and a Hard Rock Café. At least 16 new restaurants have also popped up, and several nightclubs have opened. Just a few blocks away stands the restored, and highly successful, Fox Theatre.

Around 50 new businesses and 600 new housing units may not seem much in booming cities like New York or Chicago. In Detroit, though, the revival is something of a miracle. Coleman Young, who was mayor for five terms in the 1970s and 1980s, tried hard to rebuild the once-grand downtown, but many of his efforts were frustrated. Potential residents didn't want to move to the inner city without shops, restaurants and entertainment; businessmen didn't want to set up shop without a nearby base of potential customers.

The 1988 reopening of the Fox began to change that equation, but the biggest boon was the 2003 relocation of Compuware, a huge computer-services company, from the suburbs to a space on Woodward near the river. Compuware has added just enough critical mass to spur a visible resurgence downtown. New housing is now moving up the wide boulevard, and even a long-abandoned neighbourhood of Victorian townhouses is suddenly being rebuilt from little more than rubble.

Yet none of this is quite good enough. Rather desperately, city officials are now busily redecorating many of the still-empty shopfronts, so that things look a little better for the big weekend. For behind all the signs of revival, bad news persists.

Carmaking is in a deep slump; even in the elegant suburb of West Bloomfield, the deep job cuts under way at Ford and General Motors have made it hard to sell a house. That decline hits the city of Detroit especially hard, since it depends disproportionately on income-tax revenues from workers at places like the Renaissance Centre, the riverfront headquarters of GM. Across the city the tax base is shrinking, even as the current mayor, Kwame Kilpatrick, struggles to balance his budget by slashing the number of police and firemen and lopping off other city services. Despite the new downtown housing in places like Woodward Avenue, the census shows that around 1,000 residents a month are leaving the rest of the city.

Mr Kilpatrick, a black firebrand who was recently re-elected in controversial circumstances, has proposed a 22% cut in property taxes for some neighbourhoods. That may be too late to stop the exodus. People fear that, with rare exceptions, the city's 'hoods will continue to decline, forcing the city to repeat the same pattern of growth that occurred a century ago. Back then, the new car industry quickly outgrew Detroit's modest downtown, swallowing up one village after another until the city swelled to its current borders.

The question is what could drive the next round of growth. The Big Three carmakers are unlikely to provide the impetus. And big events, like the Super Bowl, come too seldom to put some substance behind the Potemkin shops.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Coretta Scott King

A giant's widow

Feb 2nd 2006 | WASHINGTON, DC
From The Economist print edition

A life of pain and sacrifice

MARRYING a martyr is a sure route to sorrow. Winnie Mandela was unhinged by her husband's 27-year imprisonment (not to mention constant harassment by apartheid thugs), and ended up embroiled in kidnapping and fraud. Coretta Scott King, who died this week, bore her hardships with grace and fortitude.

Even while her husband, Martin Luther King, was still alive, she suffered. Though globally revered for his peaceful struggle for civil rights, King had the kind of enemies who firebombed his home and often threatened to kill him. Mrs King was at home with their first baby when the firebomb went off. Between their second and third children, her husband was stabbed while autographing books. He was assassinated when their fourth child was five.

Mrs King had a strong will and independent mind—she insisted that the vow to obey be cut from her wedding ceremony. She was devoted to the cause, too, raising money, singing at “freedom concerts” and joining her husband on the historic march from Selma to Montgomery.

But most of the time King travelled, he asked that she stay behind. He had traditional views on a mother's place and he worried that if she travelled with him, his children might be orphaned. Leaving her at home also left him free to philander, a habit his wife did her best to ignore until he made a pained partial confession as she was recovering from a hysterectomy.

After her husband died, Mrs King was forced “to live a legacy, not a life”, as one *Washington Post* columnist, Eugene Robinson, put it. She tended his memory, most notably by lobbying, successfully, for a national holiday to honour it. She founded the King Centre in Atlanta to preserve and display his papers and memorabilia, a lofty undertaking marred in recent years by an intra-family squabble for control.

She led a lonely crusade to exonerate James Earl Ray, the man who confessed to her husband's murder but later recanted. She blamed a conspiracy that may have involved the government, angry at her husband's opposition to the Vietnam war. A Memphis jury endorsed this theory in 1999. A federal investigation, completed the following year, did not.

Mrs King's eulogists agree that she took up her husband's mantle and “kept his dream alive”, to quote Bruce Gordon, head of the National Association for the Advancement of Coloured People. Certainly, she was a staunch campaigner against racism and for gay rights and affirmative action. But her husband's greatest achievements were already enshrined in law—the Civil Rights Act and the Voting Rights Act—by the time he died.

Some fret that the civil rights movement has lost its focus since then, but how could it not? With the big battles won, only skirmishes remain, and reasonable people can disagree about which are

worth fighting. The struggle for the right to vote had universal resonance; the struggle for the right to be admitted to university with lower test scores than the children of Vietnamese refugees does not.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

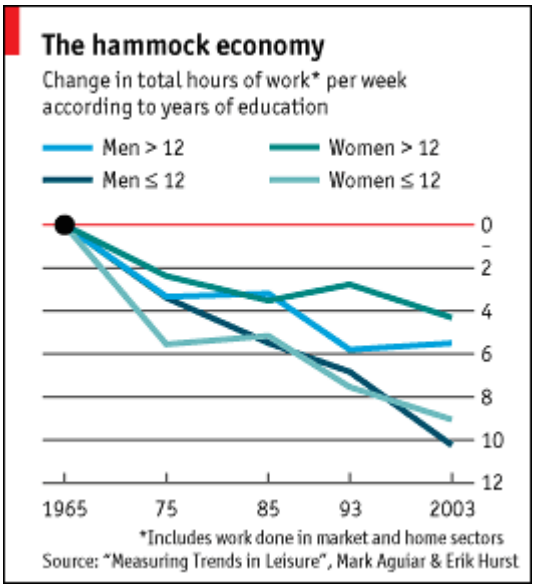
Work and play

The land of leisure

Feb 2nd 2006 | CHICAGO
From The Economist print edition

Why Americans have plenty of time to read this

AS MOST Americans will tell you if you can stop them long enough to ask, working people in the United States are as busy as ever. Sure, technology and competition are boosting the economy; but nearly everyone thinks they have increased the demands on people at home and in the workplace. But is the overworked American a creature of myth?



A pair of economists have looked closely at how Americans actually spend their time. Mark Aguiar (at the Federal Reserve Bank of Boston) and Erik Hurst (at the University of Chicago's Graduate School of Business) constructed four different measures of leisure.* The narrowest includes only activities that nearly everyone considers relaxing or fun; the broadest counts anything that is not related to a paying job, housework or errands as "leisure". No matter how the two economists slice the data, Americans seem to have much more free time than before.

Over the past four decades, depending on which of their measures one uses, the amount of time that working-age Americans are devoting to leisure activities has risen by 4-8 hours a week. (For somebody working 40 hours a week, that is equivalent to 5-10 weeks of extra holiday a year.) Nearly every category of American has more spare time: single or married, with or without children, both men and women. The only twist is that less educated (and thus poorer) Americans have done relatively better than more educated ones (see chart). And that is not just because unemployed high-school drop-outs have more free time on their hands. Less educated Americans with jobs—the overstretched middle class of political lore—do very well.

These findings will no doubt be scoffed at by many Americans who are certain that they, and nearly everyone they know, are overworked (and who may find time to write letters to the editor saying so). Indeed, a 1992 book by Juliet Schor, "The Overworked American", became a best-seller by telling people something that they thought they already knew.

In fact, most of the official numbers have shown that American toil has not changed that much over the past few decades. Americans may put in longer hours at the office than other countries, but that is because average hours in the workplace in other rich countries have dropped sharply. In America, official studies tend to show women working more and men less, but the average working week has been fairly constant.

How then have Messrs Aguiar and Hurst uncovered a more relaxed America, where leisure has actually increased? It is partly to do with the definition of work, and partly to do with the data they base their research upon.

Most American labour studies rely on well-known official surveys, such as those collected by the Bureau of Labour Statistics (BLS) and the Census Bureau, that concentrate on paid work. These are good at gleaning trends in factories and offices, but they give only a murky impression of how Americans use the rest of their time.

Messrs Aguiar and Hurst think that the hours spent at your employer's are too narrow a definition of work. Americans also spend lots of time shopping, cooking, running errands and keeping house. These chores are among the main reasons why people say they are so overstretched (especially working women with children).

However, Messrs Aguiar and Hurst show that Americans actually spend much less time doing them than they did 40 years ago. There has been a revolution in the household economy. Appliances, home delivery, the internet, 24-hour shopping, and more varied and affordable domestic services have increased flexibility and freed up people's time.

So women are devoting more hours to paying jobs, but have cut their housework and other burdensome tasks by twice as much. Men have picked up some of the slack at home; but thanks to technology and other advances, there is plenty of free time left over for them as well, since they have yielded some of their paid working hours to women.

The data for Messrs Aguiar and Hurst's study comes from time-use diaries that American social scientists have been collecting methodically, once a decade, since 1965 (the latest one used in their paper was from 2003). These diaries ask people to give detailed information on everything they did the day before, and for how long they did it. The beauty of such surveys, which are also collected in Australia and many European countries, is that they cover the whole day (not just the time at work), and they also have a built-in accuracy check, since they must always add up to 24 hours a day.

Time-use diaries have long been a treasure trove for sociologists. (John Robinson, who helped oversee the diary surveys for years at the University of Maryland, co-wrote a book in 1997, “Time for Life”, that aimed partly to rebut Ms Schor's claims.) But economists in America have only recently begun paying much attention to them. The BLS started using them in 2003.

Keep reading...you have a moment

Do the numbers add up? One thing missing in Messrs Aguiar's and Hurst's work is that they have deliberately ignored the biggest leisure-gainers in the population—the growing number of retired folk. The two economists excluded anyone who has reached 65 years old, as well as anyone under that age who retired early. So America's true leisure boom is even bigger than their estimate.

Another question-mark has to do with child care. When the BLS took over the time-use diaries for the 2003 survey, it changed the measures for what parents do when their kids are around. That cast some doubt on comparisons between the 1993 and 2003 diaries. Against that, the 1965-93 figures are consistent—and over that period, even working women with children enjoyed an increase in leisure time of more than six hours a week.

The biggest theoretical problem with time diaries is “multi-tasking”. Do you measure the time you spend cleaning your house while listening to portable music as “leisure” or “work”? This problem

may be exaggerated: usually people seem to combine two work activities (using a laptop computer on a plane), or two leisure ones (watching television and doing something else). The two economists counted many combinations of work and leisure—such as reading a novel while commuting or goofing off on the internet at the office—as time spent working.

Richard Freeman, a labour economist at Harvard, reckons that, despite the inability to measure multi-tasking, the finding of a big increase in leisure is “basically right”. Another well-known work-watcher, Daniel Hamermesh at the University of Texas at Austin, who has worked with various countries' time-use diaries, agrees.

Is all this leisure a good thing? Some part-time workers might well wish they had less leisure and more income. For most Americans, however, the leisure dividend appears to be a bonus. Using average hourly wages after tax, Steven Davis, a colleague of Mr Hurst's, reckons that the national value of five extra hours of leisure per week is $570 billion, or $3,300 per worker, every year.

But why do Americans feel so harried? Weirdly, prosperity may be to blame in two ways. First, thanks to rising real incomes, an American's time is worth more now. A walk in the park is more expensive than it used to be. (When people complain to him about being too busy, Mr Hamermesh tells them that their real problem is too much money.) Second, economic advances allow people to squeeze ever more possible activities, both work and leisure, into a day, which encourages people to try to do too much.

Mr Robinson reckons that people will feel less busy to the extent that they can control their schedule and gain flexibility. It is easy to see why a personal video recorder, which offers near-total mastery of the television, is such a popular device; and why traffic jams and security queues at airports exasperate modern workers.

Finally, there is the changing nature of work. Mobile phones and e-mail make people accountable on short notice, and competition may make them less secure in their jobs. So even if they are playing golf or walking in the park, they may feel as if they are working. It is surely nicer to feel overworked in the park than to be overworked at the office, but few Americans seem to look at it that way. Think about that in your spare time.

---

* “Measuring trends in leisure: the allocation of time over five decades”, Federal Reserve Bank of Boston working paper, January 2006

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Leisure pursuits

The Stitch 'n' Bitch niche

Feb 2nd 2006 | AUSTIN
From The Economist print edition

What Texans do when they're not herding steers

BECKY DIFFEN got hooked on knitting four years ago after being coached by one of her college-softball team-mates in Minnesota. “It was something to do during long van rides,” she explains. Then she taught her mother. So when a group of women gathers at an Austin bookshop, the daughter trots out a fetching green baby blanket while her mother purls away at a beginner's scarf.

These days it is young people, not grannies, who are leading the needle brigade. Some even call it the new yoga, with stars queuing up to stitch. Julia Roberts has made bootees for her twin babies. Membership in the Knitting Guild Association (KGA) stands at 12,000, up 21% since 2001. With the knitting craze in full swing, the hard core is moving on to crocheting and needlepoint.

In Austin, Ms Diffen's SNB club (shortened from “stitch 'n' bitch” because of a trademark row) attracts regulars in their 20s and 30s. “The big thing right now is socks,” avers Ann Hollis, Ms Diffen's mother. These are quick to make (apparently) and, in Texas, there is not much demand for hats or scarves. Last year, say SNBers, the trendy thing was lace knitting, holey patterns with very fine yarns.

Knitting has changed a lot since the old days. The new yarns come in all shapes and textures—“glitzy, furry, nubby, chunky”, says Debby Johnston of the KGA. Needles are less cumbersome. There has been a knitting spree for cell-phone cases and iPod covers. Ms Diffen has made a felted bed for her cat (a knitted fabric will “felt” if it is washed in hot water). There are reports of people knitting helmet liners for soldiers (the Pentagon failing to provide supplies, again). Inevitably, the internet plays a role. At the SNB session, two people were knitting patterns they had found online. There are knitting blogs—Yarn Harlot, Knit and Tonic and You Knit What—and even knitting podcasts.

The real test is whether men will join in. They account for a mere 1% of the KGA; but reports are coming in from Greenwich Village of special “boyz nites” where real men meet to “rib”, and Austin's main yarn shop, Hill Country Weavers, reports that 6% of its customers are male. At the shop where SNB gathers, no fewer than eight magazines are devoted to knitting—nearly as many as for fishing, but still some way behind guns.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The losers

Feb 2nd 2006
From The Economist print edition

Al Gore shines by comparison with John Kerry

WHERE do Democratic presidential candidates end up? The answer, to judge from recent headlines, is that they go to global gabfests in posh skiing resorts. Al Gore was at Sundance the other week with the likes of Robert Redford, Paris Hilton and various film people who claim they are interested in "issues". John Kerry was at Davos with the likes of Kofi Annan, Angelina Jolie and sundry slobbering journalists. The skiing was excellent in both places, we're told; the networking was *au point*; and the opportunities for meeting *hoi polloi*, other than as conveyors of drinks and canapés, just about zero.

It is easy to be cynical about the keenness of Messrs Gore and Kerry to discuss "the creative imperative" and other such tosh with their peers. After all, these are men cut from the same cloth, who have spent most of their life hobnobbing with whatever passes for the elite, even occasionally marrying them. They were both bred to be politicians. Mr Gore became a congressman at the age of 28, a senator at 36 and a presidential candidate at 39. Mr Kerry, who grew up thinking that the fact that his initials were JFK proved that he was destined for high office, was a leader of the anti-war movement at 27 (Richard Nixon charitably described him as a "phoney", but an "effective" one).

And yet something extraordinary has happened over the past few years: the two men have started to become distinguishable. Mr Kerry remains a professional politician—the perpetual junior senator for Massachusetts, playing the pale thin man to Teddy Kennedy's florid fat man. Conversely, he has also retained his tin ear for politics. Last week, he not only made the mistake

of calling for a filibuster of Samuel Alito that had no chance of succeeding (to have any chance of making this archaic senatorial device work with a Supreme Court nominee, you first need to have demonised your victim); he also made the mistake of making that call from Davos.

From the perspective of Davos Man, this was doubtless an impressively global stunt (how Ms Jolie must have purred on the chairlift). But in the real world of American politics, it was disastrous. Scott McClellan, George Bush's normally lacklustre press secretary, joked about it being “pretty serious yodelling to call for a filibuster from a five-star ski resort in the Swiss Alps”. The *Wall Street Journal* sniped that Mr Kerry had been “communing with his political base” in Davos. Democrats were furious. They saw it as a transparent play for support from the party's over-excited activists, the insider turned calculating insurgent (Mr Kerry even wrote about the filibuster on a left-wing blog). Barack Obama, a newcomer to the Senate, said it was silly to oppose a nominee unless you've won the hearts and minds of the country. Mr Alito has now been confirmed for the Supreme Court, blue-collar America has been reminded why Democrats are not like them and Mr Kerry has confirmed his position as one of the perennial losers in American politics.

Mr Gore, by contrast, has morphed into a more interesting figure. The youngest presidential candidate from a major party since William Jennings Bryan, he has now abandoned the life of a professional politician for a portfolio career as part-time businessman and part-time tub-thumper. He calculates that he spends three-quarters of his time running his cable television project, Current TV, a sort of “Wayne's World” for the digital age. Mockers may point out that most of Mr Gore's original backers were big Democratic donors, that he had to give up his original idea of founding a liberal alternative to Fox News and that the channel now relies on help from Mr Gore's political nemesis, Rupert Murdoch. But Current TV has developed into a genuine business rather than a political front.

It is ironic that a man who was once famous for his stiffness has embraced one of the most fluid forms in media; and rather odd that a man who was robbed of a normal youth by his father's political ambition (the older Senator Gore boasted of raising his son for the White House) has plunged into youth television. But he has loosened up. Al the politician was wound up almost beyond endurance. (“How can you tell Al Gore from a roomful of Secret Service agents?”, went a popular joke. “Gore is the stiff one.”) The new Al is letting it all hang out. The evidence of this is partly physical: a man who was described as a “fantasy man” by *Fitness* magazine in 1992 has ballooned. But it is more than that: Mr Gore is now quite a performer, a man who is no longer frightened of sweating and hollering.

Let it all out, Al

Mr Gore now delivers no-holds-barred broadsides against the Bush administration for everything from Abu Ghraib to warrantless wiretaps. But the former vice-president is at his most impressive on his old passion—the environment. Wrongly or rightly, Mr Gore believes that humanity has only about a decade to fix a “planetary emergency”; and he has spent the past few years roaming the world perfecting his lecture-cum-slideshow on the dangers of global warming, much as Ronald Reagan spent the 1950s roaming America perfecting his speech on the evils of government. Mr Gore was at Sundance to promote a documentary based on his speech.

Which points to an interesting paradox: Mr Gore is generating far more political capital by breaking the political rules than he did by obeying them. Mr Kerry's Alito ploy looked brazenly political. But Mr Gore's new persona (or perhaps, more accurately, his rediscovery of his hidden self) is causing something of a buzz. The party's cash-rich Hollywood wing increasingly sees him as a liberal alternative to Hillary Clinton; and he is persuading all sorts of people to take a fresh look at Dudley Do Right. None of this means that he is a frontrunner for the Democratic nomination in 2008. But it does mean that he is far better placed than the junior senator from

Massachusetts.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Haiti's election

At last, a bridge of sorts to the future

Feb 2nd 2006 | PORT-AU-PRINCE
From The Economist print edition

AP

A belated and perhaps chaotic milestone in an ill-starred international effort to create a democracy out of a failed state

THE streets of Port-au-Prince are decked out in campaign bunting. But there is little sign of many of the 34 candidates, either because they lack money or are scared of street violence. Even so, almost two years after a ragtag group of armed rebels precipitated the ousting of Jean-Bertrand Aristide as Haiti's president, the poorest and most chaotic country in the Americas is inching towards a presidential election. The vote, due on February 7th, is long overdue. It is taking place under the auspices of the United Nations and its force of 9,000 peacekeeping troops and police, but has been postponed four times.

If it goes ahead smoothly, the election looks set to be won by René Préval, a former president and once a close ally of Mr Aristide, a populist ex-priest who is now in exile in South Africa. That has led some Haitians to see sinister motives behind the postponements. Mr Aristide still protests bitterly at his removal from Haiti as American marines and French paratroops flew in, ostensibly to prevent a bloodbath, as the rebels marched on the capital.

In fact the delay appears to stem from the difficulty of organising a free and fair election in Haiti. Despite the UN's efforts, the country remains economically devastated. Large areas of the capital are racked by violence, crime and kidnapping.

The United States and the European Union have put up most of the money for identity cards for the 3.5m voters—the first-ever attempt to create a reliable electoral register. Gerardo Le

Chevallier, an experienced Salvadorean who heads the UN's electoral team in Haiti, is confident of a fairly peaceful vote. Turnout may be low. But so it was when Mr Préval was elected in 1995—and it was even lower when Mr Aristide won a second term in 2000 in an election boycotted by the opposition.

To prevent fraud and ensure security, the UN persuaded local electoral officials to cut the number of voting centres by half, to 803. Some fear this may generate crowds and confusion. Some voters will have to walk for miles. Logistics are “very difficult”, concedes Mr Le Chevallier. His request to the United States for the loan of extra helicopters was turned down, so he has hired 280 mules to collect ballots from remote areas. That may delay the count.

Few Haitians seem optimistic that the election will mark a change in their fortunes. After decades of dictatorship, Mr Aristide's election inspired hope. He was overthrown by a coup in 1991; three years later, Bill Clinton sent 20,000 American troops to restore him to power. But Mr Aristide became increasingly despotic, relying on thuggish gangs to enforce his rule. Political instability and violence have conspired against economic development. Annual income per head is $390—less than it was in 1955 allowing for inflation.

The elections are taking place against a background of rising violence. Most of this appears to be non-political. It is concentrated in Cité Soleil, a vast and lawless slum between the airport and the centre of Port-au-Prince. The slum is a stronghold of gangs once loyal to Mr Aristide. The gangs have rendered the main highway, which runs nearby, unusable. That in turn has forced several local factories to close, with the loss of thousands of jobs.

Each day brings reports of looted businesses, kidnappings and killings. More than 1,500 people, including 78 local police and nine UN peacekeepers, have been killed since Mr Aristide's fall. Last December alone, two health posts run by Médecins Sans Frontières, a French charity, treated more than 220 gunshot victims. Nearly half were children, women or elderly. There were 247 reported kidnappings in December in Port-au-Prince.

“Our country is being wrecked,” says Charles Baker, a factory owner and a presidential candidate supported by business groups which led street protests that helped to bring down Mr Aristide. He blames the UN for not doing more against the gangs. Residents of Cité Soleil disagree. “We have nothing to eat or drink, and the UN is shooting at us,” said one. “They coop us up here and treat us like wild beasts.”

The UN troops are under constant fire from the gangs. The mission, led by Brazil and Chile, has been hampered from the start by lack of money, men and equipment. Juan Gabriel Valdés, the mission's head, says he needs armoured helicopters, night-vision goggles and radios for the troops, as well as money for social projects in the slums. He has resisted calls for operations in Cité Soleil of a kind that would cause large-scale civilian casualties.

Security has improved outside Port-au-Prince, allowing campaign rallies, though these are brief affairs with many bodyguards attending. Mr Préval has made the running, with 37% of the vote in the only credible opinion poll. “We need investment and jobs and for that we need peace,” he told a rally in St Marc, north-west of the capital. He promises universal primary education and better health care.

The poll put Mr Baker second, but with only 10%. He wants to restore the army, disbanded by Mr Aristide. He accuses Mr Préval of being Mr Aristide's “puppet”. Yet there is much evidence that the two fell out. Mr Préval's supporters accuse Mr Aristide of undermining his government, and of being behind the murder of two of his closest friends. Under Mr Aristide, “there was a lot of corruption,” says Mr Préval. Some of those responsible now face drugs charges in the United States.

If Mr Préval wins, as seems likely, he would at least enjoy legitimacy, which might give Haiti an opportunity to turn the corner. But if it is to seize the opportunity, the country will need continuing support from the outside world—preferably on a greater scale than it has received so far.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

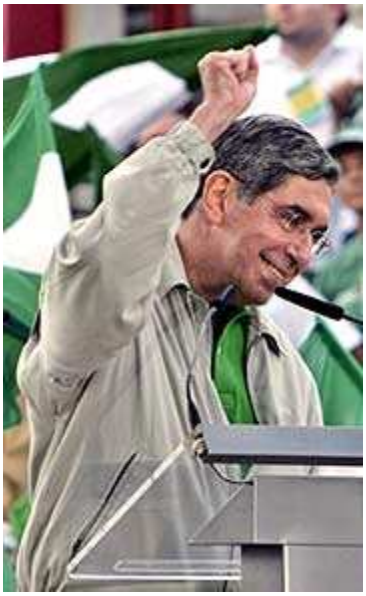
Costa Rica

After the fall

Feb 2nd 2006 | SAN JOSÉ
From The Economist print edition

A familiar figure in a troubled country

AP



Last Arias for traditional politics

SMALL and relatively prosperous, Costa Rica boasts one of Latin America's oldest and most solid democracies. Yet that democracy has fallen under a cloud. In 2004, no fewer than three ex-presidents were embroiled in corruption scandals. One consequence is that the country's stable two-party system has broken down. Another is that many Costa Ricans have become apathetic about politics. In a presidential election on February 5th, even more may stay at home than at the last election, when only 67% voted, the lowest figure since 1958.

Most of the campaign excitement has come from Óscar Arias, the candidate of the opposition National Liberation Party (PLN). As president in the 1980s, he won the Nobel Peace Prize for his efforts to negotiate an end to the wars in neighbouring Central American countries. He pushed for, and has benefited from, a constitutional change in 2003 which allows former presidents to stand again. Polls suggest he may get just over 40% of the vote—the figure needed to avoid a run-off ballot.

The PLN, which provided one of the three disgraced presidents, has been rescued by Mr Arias's personal popularity. The party's electoral machine is a shadow of its former self. Even so, Mr Arias's closing rally in the capital, San José, drew tens of thousands to the city's main avenue. They were warmed up by belly dancers, as an aeroplane flew overhead towing a banner with the candidate's bland slogan, “Yes, Costa Rica!”

Mr Arias's closest rival is Ottón Solís, who once served under him as a minister before breaking from the PLN to set up the Citizen Action Party. Standing on an anti-corruption platform, Mr Solís came third in 2002, and polls in the low twenties now.

The ruling Social Christian party, which has alternated in power with the PLN since a revolution in 1948, is set for humiliation. It has taken the brunt of voter anger over corruption. Its candidate will be beaten by Otto Guevara, who leads a conservative free-market party. A proliferation of minor parties probably points to another four years in which the president lacks a congressional majority.

That could be a problem. Economic growth has been fitful, though it has been boosted by an Intel silicon-chip assembly plant and eco-tourism. But some 20% of Costa Ricans remain poor, a figure that has been falling only slowly. Costa Ricans pride themselves on their welfare state, but do not tax themselves enough to pay for it. A stubborn fiscal deficit has helped to push inflation up to

14%.

Mr Arias wants Costa Rica to ratify the Central American Free Trade Agreement (CAFTA) with the United States. (Its non-ratification is one reason the pact did not come into effect on schedule on January 1st.) He also wants competition in telecoms and insurance, both of which are state monopolies. Steps in that direction are required to comply with CAFTA.

Costa Ricans are divided over free trade, but have fiercely resisted previous attempts at economic liberalisation. Opponents of Mr Arias jibe that he is out of touch with local realities after years on the Davos circuit. Mr Solís opposes CAFTA ratification. He calls on the United States to end farm subsidies and allow free movement of labour—splendid, but utopian, goals. Otherwise, he says, CAFTA might benefit the poorer Central American countries, but not Costa Rica.

Assuming he wins, with or without a run-off, Mr Arias's task will be to breathe new life into what has become a sickly democracy and an economy lacking vigour. That may prove to be just as hard as ending the Central American wars.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil's Indians

Land wars

Feb 2nd 2006 | KRUKUTU, SÃO PAULO
From The Economist print edition

Ancestral claims and modern interests

IF YOU crave tranquillity in São Paulo, South America's biggest city, escape to its leafiest neighbourhood, Krukutu. Few cars venture up the rutted track leading to the village, set in a patch of unspoilt *Mata Atlântica* (Atlantic rainforest) near a reservoir. The only industry is bead necklaces, animal figurines and other handicrafts fashioned by the 170 or so Guarani Indians who constitute Krukutu's population.

The calm will now be shattered, they fear, by the construction of a ring road intended to draw traffic away from the chaotic city and speed goods to and from Santos, Brazil's biggest port. Although the road will be 8km (5 miles) away from the village, it could draw São Paulo's urban sprawl to Krukutu, levelling forest, worries Olívio Jekupé, president of the village council. To prevent that, he wants the village's land expanded 20-fold, to 500 hectares (1,235 acres).

Tension over the ring road is one of the milder battles between indigenous groups and economic interests that are erupting across Brazil. Successive governments have set aside 12.5% of the national territory for 450,000 Indians, who make up just 0.25% of the total population. Farmers, ranchers and other land users have long grumbled about this. On January 11th Mércio Gomes, the president of Funai, the federal agency dealing with Indian affairs, appeared to side with them. “It's a lot of land,” he observed in an interview. The Supreme Court “will have to set a limit.”

This provoked fury among defenders of Indian rights, including Sydney Possuelo, a senior official at Funai and a living legend who spent decades probing the Amazon rainforest for “uncontacted” tribes. Mr Gomes spoke the language of Indians' enemies, he said. Mr Possuelo was promptly sacked. Funai says that Mr Gomes was misunderstood, and that Mr Possuelo was sacked because his individualist approach was incompatible with new policies for isolated peoples.

The furore will die down, but strife over Indian lands will not. Discarding the traditional notion that Indians should melt into society, Brazil's 1988 constitution recognised their right to reclaim their original lands and to preserve their way of life. More than most countries, Brazil has kept its promise. Partly because their land is more secure, Brazil's Indian population has staged a spectacular recovery in the past 30 years, after centuries of decline.

Yet 98.6% of the land awarded to indigenous peoples is in the sparsely populated Amazon, which is home to only 60% of Indians, notes Márcio Santilli of the Instituto Socioambiental, an NGO. The other 40% are crammed into reserves dotted across the crowded south and north-east (see map). Many are too cramped for hunting and farming and are hemmed in by pushy neighbours. In Krukutu, hardly the most claustrophobic, smallholders have driven away the animals, claims Mr Jekupé.

Hence the land wars. Last month 500 Indians invaded

eight farms in the north-eastern state of Bahia, which they claim occupy traditional lands. Federal police injured 12 Indians while uprooting two villages from a eucalyptus forest operated by Aracruz, a paper company. The Conselho Indigenista Missionário, a church-linked group, says 38 Indians were murdered in 2005, a ten-year high.

Half died fighting among themselves, said Mr Gomes. Funai still wants to create more reserves, but the courts are starting to object. Last year the president of the Supreme Court suspended a reserve at Marangatu, in the west, leading to the expulsion of 700 Guaranis. It was only the second time that a court challenged a reserve ratified by the government. A draft law would give the Senate a veto over new reserves, which would doom most claims to ancestral lands. The Guaranis of Krukutu may be luckier. With a neighbouring Indian village they are entitled to 9,000 hectares, according to a report commissioned by Funai. Thanks to the fuss about the ring road, they may get a bit of that.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Canadian business icons

A foreign invasion

Feb 2nd 2006 | OTTAWA
From The Economist print edition

But globe-shopping Canadians are relaxed

NO INSTITUTION is more synonymous with the history of Canada than the Company of Adventurers of England Trading into Hudson Bay, a charter company founded in 1670. The Hudson's Bay Company—"The Bay" to Canadians—mutated from British empire-builder into the country's largest non-food retailer. Yet when on January 26th its management agreed to a takeover by Jerry Zucker, an American investor, there was barely a whisper of protest. Even the Council of Canadians, which not too long ago would have delivered a rousing nationalistic rant on the evils of American ownership, was uncharacteristically silent.

Hudson's Bay is not the only Canadian business icon to have been snapped up by foreigners in the past few weeks. Just four days later, Fairmont Hotels was bought for $3.9 billion by an American private equity outfit and Prince Alwaleed bin Talal, a Saudi businessman. Some of Fairmont's hotels, in the style of French chateaux, were built by William Van Horne to boost traffic on the Canadian Pacific Railway in the 1880s. Last month Dofasco, founded in 1912 as the Dominion Steel Casting Co to make railway parts, accepted a bid by Arcelor, a European steel giant. CP Ships, which carried tea and British mail from China in the 1880s, was sold to Germany's TUI in December.

In many other countries, the sale of such national heirlooms would spark fierce opposition. Not in Canada, for several reasons. The first is that despite their provenance, these particular icons were not considered sacred. The Bay's dowdy department and discount stores have struggled for years. Many shoppers switched to Wal-Mart when it crossed the border a decade ago.

Fairmont Hotels had plenty of glamour and glitz, but a small domestic constituency. Its customers are tourists. "The last time I was at Chateau Lake Louise," says Angus Reid, a Vancouver pollster, referring to Fairmont's resort hotel in the Rockies, "it was full of Japanese." Dofasco is a landmark in Hamilton, a steel town near Toronto. But in a consolidating industry—Arcelor itself is now a takeover target (see article)—its workers are happy to have their jobs secured. As for CP Ships, all its vessels fly foreign flags.

Other deals have caused more controversy. When China Minmetals tried to buy Noranda, a nickel and zinc producer, in 2004, the government dusted off its foreign-investment review process, unused for 20 years. Critics cited China's human-rights record. In 1995, when Disney won a five-year contract to sell merchandise using the image of the Royal Canadian Mounted Police, the government was denounced for selling a national symbol for a few bucks. The contract was not renewed.

According to Rudyard Griffiths of the Dominion Institute, an NGO set up to promote national history, Canadians identify more with government institutions and programmes such as the health service and peacekeeping than with the past, still less the past of private businesses.

Had any of the companies hailed from French-speaking Quebec, reaction there might have been different. Yet perhaps the main factor is Canada's current economic strength. Fears of an American takeover fuelled much of the opposition to a 1988 free-trade agreement with the United States. Those fears proved groundless. The country has since become more comfortable with globalisation, says Glen Hodgson, the chief economist at the Conference Board, a business group. Armed with a strong currency, Canadian companies are on a global shopping spree of their own (see chart). “We're buying companies in other countries much faster than they're buying here, so we can hardly go around complaining,” says Philip Cross of Statistics Canada.

Still, there will be an ironic moment at the Winter Olympics in Turin later this month. The Bay won a contract to dress the national team in the red, green, yellow and indigo of its traditional blankets. Before the games end, The Bay and its trademark colours will belong to an American.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Afghanistan

A charter in London, troops for the badlands

Feb 2nd 2006 | QALI BOST, HELMAND PROVINCE
From The Economist print edition

Reuters

After painful prevarication, NATO gets serious about peacekeeping in Afghanistan

FOUR years after America and its allies bombed the Taliban from power, many Afghans are still waiting to catch a glimpse of their conquerors. In northern Afghanistan, British peacekeepers with the NATO-run International Security Assistance Force (ISAF) were recently taken for Russians. In the violent south, where ISAF is soon headed, news of the deployment can spark fighting talk. “If the British come to occupy our country, even my six children will resist,” said Gul Mohammad, a farmer in Qali Bost, Helmand province, where 3,300 British troops are due in April. “But if they come to help, that is fine, so long as they leave afterwards.”

Mr Mohammad can set his mind at ease. The British plan to remain in Helmand for only three years, unlike the British expeditionary force massacred almost to a man nearby in 1880. And final approval for their mission was only one of several recent signs of help for Afghanistan. At a conference in London this week, Afghanistan's president, Hamid Karzai, and officials from 40 countries that sponsor his government, announced a “charter” for the country's reconstruction. It included several bold benchmarks, among them things that poor Afghans crave: the disbanding of illegal militias, the creation of a competent police force, fair recognition of property rights and so on. As expected, the conference yielded no very significant new offers of cash—though America pledged to give $1.1 billion next year, maintaining its current level of contribution. But considered with ISAF's imminent move southwards, after two years of European foot-dragging, it suggested a fairly solid, international commitment to Afghanistan's rebuilding.

Britain, Canada and the other NATO members sending troops to the south,including to lesser

degrees Estonia, Denmark and perhaps the Netherlands, can take much credit for this. For too long, NATO's performance in Afghanistan—which many consider to be the alliance's own benchmark—was derisory. ISAF currently has 8,000 troops in Kabul and small garrisons in the north and west of the country—everywhere, that is, except where Taliban and allied insurgents threaten Mr Karzai's rule. By agreeing to head towards danger, they have set a precedent. According to current plans, by the end of this year ISAF will also spread further into eastern Afghanistan. At that time, it should assume full responsibility for peacekeeping and counter-insurgency, with a separate American-led force, currently of 20,000 troops, merging into it.

It is the Americans who have hitherto occupied the south, and with little evident success. Each snowy winter since the occupation began, the Americans claimed to have pummelled the Taliban into submission. And with each springtime thaw, new enemy fighters appeared. The past year has been especially bloody, with nearly 30 suicide bombs, including a blast earlier this month in southern Uruzgan province that killed ten people—but not, as the bomber intended, America's ambassador. More American soldiers were killed in Afghanistan last year than in the previous three years. An American infantry unit in southern Zabul province has lost 11 men in the last eight months, and claims to have killed 65.

The central reason for this is that the Taliban are based not in southern Afghanistan, but in next-door Pakistan. American soldiers fighting along the wild border between the two countries complain that, when pursued, their enemies routinely scuttle southwards across it. Having grown increasingly frustrated, America has thrice launched airstrikes on terrorist targets in Pakistan this year. Pakistanis protested fiercely against these attacks, but many Afghans smiled. According to several recent polls, and even though American soldiers have behaved clumsily in conservative southern Afghanistan, Afghans cite America as their favourite foreign country. They cite Pakistan as their least favourite. And yet Pakistan is not the only reason Afghanistan's violence has proved so enduring. Another, though it is not always fully appreciated, is drugs.

A vast area of craggy hills and fertile plains, Helmand produced more opium last year than any other province—representing about 20% of the world's supply of heroin. This year, it is predicted to produce 25% more, which is not surprising. Helmand has no reliable police or soldiers. Its few dozen American special-forces fighters have no time, or orders, to meddle with opium. Many farmers do not even know that their prime cash crop is illegal. American and European officials have claimed that Afghan opium money swells Taliban and al-Qaeda coffers, and so buys bullets to kill western troops. But, plausible as this seems, the evidence is scanty. Perhaps more commonly, the trade has stirred local conflict, between rival traders, and with local druglords employing violence as a way to keep meddlesome officials away.

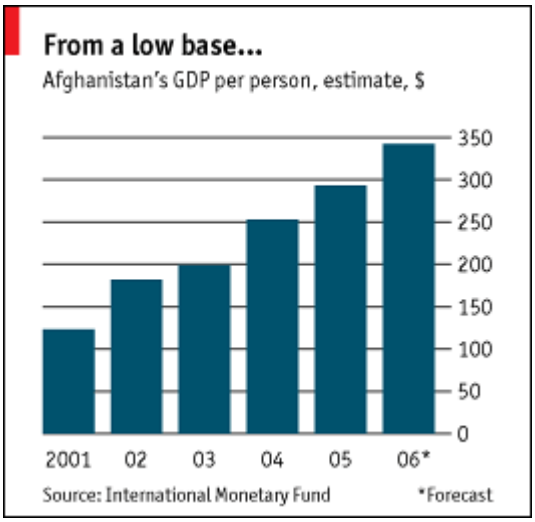
The British troops going to Helmand will be plunged into the midst of this violence and confusion. Their chief mission is not to hunt druglords or destroy opium stockpiles. They will train Afghan forces to do so—including 2,000 Afghan army recruits, expected shortly at a new $80m-barracks in Helmand. More controversially, soon after they reach the province, they may be called to safeguard a campaign to eradicate the crop in the fields. In neighbouring Kandahar last year, the national government sent a force of 1,000 men, trained by American contractors at a cost of $100m, to do this work. The result was almost a provincial revolt. At Maiwand, close by the border with Helmand, the would-be eradicators drew gunfire, and fled to their camp, never to return.

Afghanistan's economy

Creeping towards the marketplace

Feb 2nd 2006 | KABUL
From The Economist print edition

Small, though unmistakable, signs of progress in the private sector



FROM his office, 55-year-old Karim Siddiqi, the co-owner of Kabul's answer to the Dubai Burj Tower, looks out over the skyline of the Afghan capital. Beyond the blue minaret of the local mosque, the city is startlingly low-rise. Barely a building reaches four storeys, and a dark cloud of diesel fumes from thousands of small generators obscures the surrounding mountains. At eight storeys, the Kabul Business Centre, smartly fronted with blue-tinted glass, is something of a local wonder.

As one of Afghanistan's new captains of industry, Mr Siddiqi has mixed feelings about his decision to scale down the second-hand truck-import business he ran in Germany and return home. His land holdings in Kabul have multiplied in value ten times since 2001, as Kabul has been gripped by a frenzy of speculation. One *jirib* (approximately a fifth of a hectare, or about half an acre) is currently worth around $1m. On the downside, the office space in the Kabul Business Centre, into which he has sunk $3m, remains largely unoccupied.

Despite four years and $10 billion of promised foreign aid, the infrastructure of the city is still frustratingly unattractive to investors. Kabul's electricity grid offers four hours of power every other day; there will not be a continuous supply until at least 2008. The road network is decrepit and there is no drinkable mains water. Blast barriers protecting the offices of many foreign companies contribute to terrible traffic congestion, and also reflect the continued threat from terrorists. Tapping the window of his fifth-floor office, Mr Siddiqi explains that it is bullet proof. This might be reassuring, or not.

Security is not the only difficulty. Like many local businessmen, Mr Siddiqi says he is worried by escalating levels of government corruption. Among public-sector workers on salaries of around $50 a month, this has become a financial necessity, thanks to rents which are now several hundred dollars a month for a modest Soviet-built apartment.

Land tenure is particularly problematic. American-sponsored business parks have proved enormously popular on the edge of several cities simply because they offer secure land-holdings, basic services and access to markets. More are planned.

Sadly, the most buoyant sector of the economy remains the drugs trade, which is currently equivalent to around a third of GDP and, at an estimated $2.7 billion, dwarfed government

revenues of $260m last year. Such revenues represent just 4.5% of GDP, one of the lowest rates in the world. The government's own resources are not even enough to pay its current expenditure, let alone make any form of investment in the country's future.

However, there are small signs of progress. Western diplomats speak in glowing terms of improvements within the finance ministry and the central bank since 2001. Growth has been steady, if from a very low base (see chart). The economy grew 14% last year, after good rains boosted agriculture, the livelihood of 80% of Afghans. The construction industry is also booming. Exports grew 40% to $500m. Coca-Cola has taken the plunge and opened a factory on the edge of Kabul, complete with its own water-purification plant.

The biggest success story, however, is the growth of the telecoms industry in a country that as recently as 2002 boasted one phone line per 1,000 people. The partly state-owned Afghan Wireless Communications Company and Roshan, a company partly owned by the Aga Khan, now have 662,500 registered users between them, with coverage across many of the remoter areas of the country. The spread of mobile phones has had a revolutionary impact on business, even among local farmers, who can check prices before herding their sheep to market.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

India

Bobbing along

Feb 2nd 2006 | DELHI
From The Economist print edition

In a sea of troubles, India's prime minister seems remarkably buoyant

AFP

The happy couple: Sonia and Singh

ASSUMING that he reads the Indian papers, Manmohan Singh, India's prime minister, ought to be a worried man. Things seem to be going badly for his government, a coalition led by the Congress party. Coalition members have recently lost power in two of India's big states. Corruption scandals have returned to haunt the party. It bickers constantly with the Communist parties whose votes it depends on for a parliamentary majority. A cabinet reshuffle this week was widely dismissed as a timid exercise in rewarding party hacks. And Congress's own plenary meeting last month made outsiders cringe at its overarching theme: competitive sycophancy towards the party leader, Sonia Gandhi, and her son, Rahul.

Yet when Mr Singh appeared for a rare press conference in Delhi on February 1st, he seemed unruffled. In part this may be due to the recent performance of the Indian economy and the prestige India is enjoying. As he noted, India was the “star attraction” at last week's World Economic Forum in Davos. But in part, also, Mr Singh can relax in the knowledge that he faces no immediate threat to his power.

Nevertheless, Congress and its coalition, the United Progressive Alliance (UPA), are dangerously accident-prone. On January 28th, Dharam Singh, the Congress chief minister of Karnataka, a big southern state, was forced to resign after the collapse of his coalition. Last year, UPA members lost power in elections in two other states, Jharkhand and Bihar. Last week, Buta Singh, the Congress-appointed governor of Bihar, was forced to resign. The Supreme Court ruled that he had violated the constitution in dissolving the state's legislative assembly last year, thwarting an earlier attempt by the UPA's opponents to take power.

This was not the first instance of central-government meddling in state politics. But Mr Singh and Mrs Gandhi have so far managed to distance themselves. Similarly, their reputations have survived two corruption scandals. One, over the Iraqi oil-for-food fraud, last November brought the resignation of the foreign minister. The second, relating to the 1986 Bofors arms deal, resurfaced last month. It emerged that the Indian authorities had requested the unfreezing of a bank account in London in the name of one of the accused. In 1989, the scandal helped bring down the prime minister, Mrs Gandhi's late husband, Rajiv.

Mr Singh's unimpeachable integrity helps him brush off calls for his resignation over such affairs. But it does not answer accusations that he is a weak prime minister. This has two aspects. One is the constant backtracking on economic reform because of the Communists' resistance—though this week the cabinet did brave their ire by agreeing to go ahead with the partial privatisation of Delhi and Mumbai airports.

The second is the power wielded by Mrs Gandhi, and the party's faith in her family. It was even widely speculated that a reluctance to appoint youngsters ahead of Rahul Gandhi was one reason for the timidity of this week's cabinet changes. This reflects worries that Congress is making little progress in winning back support in India's Hindi-speaking northern heartland, and needs his dynastic charisma.

Nationwide, opinion polls show Congress withstanding the barrage of bad news remarkably well. What should alarm Mr Singh and his colleagues, however, is the extent to which this stems from the weakness of the main opposition, the Bharatiya Janata Party (BJP), which is riven with internal dissent. But the government's travails have given the BJP a fillip, and it is again beginning to look like a serious opposition party. Congress cannot rely on its opponents' disarray for long.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

China

Deep freeze

Feb 2nd 2006 | BEIJING
From The Economist print edition

The authorities silence yet another inconvenient voice

TO JUDGE from their recent actions, it would appear that China's political commissars are feeling rather jittery. On January 24th, they shut down *Bing Dian* (Freezing Point), a publication that has made a name for itself with outspoken pieces on sensitive topics. The closure was merely the latest in a series of such moves against publications that have pushed the ever-present limits on expression in China. For *Bing Dian*, the proximate cause appears to have been a recent piece which criticised the nationalistic undertones of history texts used in schools.

Bing Dian had previously attracted attention and official criticism with articles about corruption, Taiwan and—perhaps most irritating to the powers that be—heavy-handed political interference in the work of the media. In the case of *Bing Dian*, the powers in question are probably the highest in the land. The paper is a weekly supplement in the *China Youth Daily* newspaper, which is affiliated to the Communist Party Youth League. The Youth League, in turn, is the institutional power base of China's president and Communist Party chief, Hu Jintao, so Mr Hu was likely to have been directly involved in the decision to shut *Bing Dian* down.

Li Datong, the founder and editor of *Bing Dian*, was nevertheless quick to strike back, and sharply. He told a Hong Kong newspaper that the closure was part of a long-nurtured scheme to silence the paper's "pursuit of democracy, rule of law, deliberation, liberty and rights". Calling the closure "a despicable precedent", Mr Li also accused authorities of timing their move in the run-up to the lunar new-year holiday in hopes that it would attract little attention. He followed with an open letter lambasting narrow-minded officials for using "dictatorial methods to impose controls that deaden what should be a lively political scene."

Those officials, alas, have been at it for a long time. An internet news search on terms such as "China AND media crackdown" will yield an abundant haul of stories going back many years—unless, of course, that search is conducted inside China, where software filters will block access to much of the relevant material. Despite occasional periods of relatively greater liberalism, the censorship pendulum in China only ever swings within a fairly narrow range. The past year saw a steady stream of cases in which editors and reporters were disciplined, dismissed or even jailed for violating strict official guidelines. The internet has come under particularly tight scrutiny. Service providers, foreign and domestic, are obliged to block access to a long list of suspect sites.

In its 2005 Press Freedom Index, a Paris-based rights group, Reporters Without Borders, put China near the bottom—in 159th place out of 167 countries ranked. The group has identified 32 imprisoned Chinese journalists. He Qinglian, a Chinese journalist and social critic now living in exile in the United States, says that *Bing Dian* is just the latest entrant to China's "graveyard of those who have sacrificed themselves for press freedom." She says that the government knows that rapid development and modernisation are generating enormous inequality and social tension, and uses its stultifying media restraints to keep people from knowing too much and from organising. "Chinese leaders", she predicts, "will continue to use these measures for as long as

they rule.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Indonesia

The happy Chinese

Feb 2nd 2006 | BANGKOK
From The Economist print edition

At last, Indonesia is coming to terms with its Chinese community

IF A stroll through Jakarta's ritzier shopping malls is anything to go by, Indonesians' attitudes towards their ethnic-Chinese compatriots are changing fast. During the 30-year tenure of Suharto, a former strongman, the government outlawed displays of Chinese culture, and encouraged Chinese Indonesians to assimilate. But in 2000, Abdurrahman Wahid, a reformist president, scrapped much of the discriminatory legislation. Three years later, his successor, Megawati Sukarnoputri, declared Chinese new year a national holiday. This year, shops and restaurants are festooned with banners and decorations hailing the Year of the Dog. The traditional lion dance proved so popular that several venues struggled to find troupes to perform as advertised. There is something of a fad, it seems, for things Chinese.

One television channel now broadcasts a daily news bulletin in Chinese. Several Chinese newspapers and radio stations have sprung up in Jakarta and other big cities. Demand for Mandarin lessons is on the increase, from both ethnic Chinese and other Indonesians. A Chinese Indonesian recently came second in the Indonesian version of “Pop Idol”, a television singing contest in which the audience chooses the winner.

No one knows how many ethnic Chinese there are in Indonesia. Leo Suryadinata, an academic, estimates their number at almost 3m, or 1.5% of the total population, by extrapolation from incomplete data in the census of 2000. But many Chinese Indonesians may not have identified themselves as such, for fear of discrimination. Other estimates range as high as 10m.

The economic clout of Chinese Indonesians is also a matter of dispute. A much-quoted but spurious statistic contends that they control 70% of the economy. Chinese Indonesians do own many of the biggest and most prominent conglomerates, several of which profited greatly from Mr Suharto's largesse before and during the Asian financial crisis of the late 1990s. But in some provinces, such as West Kalimantan, there are many poor Chinese farmers.

Chinese Indonesians complain that officials assume that they are all rich, and so demand higher bribes from them than from other Indonesians. Grasping officials still often require Chinese Indonesians to present supplementary proofs of citizenship to obtain passports or school places, even though the regulation in question was abolished in 1996. Chinese Indonesian badminton players, despite having won several Olympic medals and many other trophies for their country, often struggle to get their paperwork processed. In an infamous incident in 2002, Miss Megawati had to intervene to help a Chinese Indonesian athlete obtain a passport. But two years later, the Olympic badminton team was still complaining about bureaucratic harassment.

Still, some Chinese Indonesians also concede that their failure to integrate better helps to sustain such prejudice. More seem to be venturing into politics: there were 172 Chinese candidates at the last parliamentary election, although only a handful won seats. But others, scarred by Indonesia's

periodic anti-Chinese pogroms, prefer to keep a low profile. It will take more than a few festive seasons, presumably, to wash away those memories.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Indonesia's media

Broadcast news

Feb 2nd 2006 | JAKARTA
From The Economist print edition

Opponents accuse the government of trying to control the airwaves

DEMOCRATIC it may be these days, but Indonesia is a place where battles between the authorities and the defenders of human and political rights are still being fought. The latest is over new rules governing the country's private, and often critical, broadcasters. From February 5th, the government is taking back from the Indonesian Broadcasting Commission (KPI) the right to award licences to both radio and television companies, giving itself the power to vet directors of such companies, as well as limiting ownership of broadcasters, limiting media cross-ownership and banning live foreign broadcasts. The result has been a big row.

Activists for media freedom, the KPI itself and most political parties claim the new regulations violate the broadcasting law of 2002 and take the industry back to the authoritarian era of President Suharto, when the government controlled all media. Many large broadcasters, however, and particularly the 11 national television stations, are siding with the government. They agree with the information minister, Sofyan Djalil, that the regulations provide legal certainty in a hitherto messy sector and that, while they are not perfect, it would be better to implement them and then revise the broadcasting law later, a process likely to take years.

Regulation is the biggest flashpoint. The 2002 law says that the “state” will issue licences, which most parties assumed meant the KPI, an independent state body. Mr Djalil has now ruled that his department will do this itself, and that the KPI will limit itself to regulating content. Such hands-on government control was dropped shortly after Suharto was ousted in 1998. Activists fear that anti-government broadcasters could soon find themselves banned, and that Mr Djalil will then proceed to extend his powers to the currently unlicensed print media.

Foreign broadcasters have not escaped the restrictions. Scores of radio stations and several of the country's 50-plus regional television stations broadcast live programmes, particularly news bulletins, from the BBC, the Voice of America and other stations. While the broadcasting law limits this, the new regulations ban it. Live transmission of sports events, certain music shows and “sadistic” entertainment shows are also banned. Mr Djalil argues that local broadcasters have to take responsibility for their broadcasts and this is only possible if they repackage foreign broadcasts before transmitting them.

The battle-lines are being drawn. Parliament is threatening to cut funding to Mr Djalil's department if the regulations are not rescinded. The KPI, while claiming that it is keen to find an amicable solution, says that, if negotiations fail, it will support activists' plans to take the matter to the constitutional court, where three government bills covering public broadcasting are already being contested. None of this makes for very happy airwaves.

Palestine

To whom will Hamas listen?

Feb 2nd 2006 | GAZA, JERUSALEM AND NABLUS
From The Economist print edition

Hamas's win in Palestine's general election has landed it with a heap of problems and precious few ideas, yet, about how to solve them

SO FAR, the main difference to Palestinians' daily life is the jokes. A border guard pretends to grumble that he will have to collect his salary at the mosque. Drivers wonder if fines will be measured in shekels or lashes. People who normally greet each other with a casual "marhaba" (welcome) are now exchanging the more traditional "salaam aleikum, aleikum salaam" (peace be upon you) with exaggerated formality, followed by fits of giggling.

But when a society uses humour to fill a vacuum, it is to silence the fear that something much less funny could soon fill it instead. Hamas's landslide victory on January 25th, which saw the Islamists win 74 seats of parliament's 132, stunned everyone, including Hamas. Its campaign focused on domestic problems: corruption, lawlessness, unemployment. Its leaders talked mainly in slogans. The questions everyone is now asking are ones they simply did not expect to face. How will you form a government with no experience? Will you recognise Israel? Will your militias be absorbed into the Palestinian Authority (PA) security forces? Will you implement *sharia* law? What concessions will you make to continue getting foreign aid?

They also highlight Hamas's internal differences. It decides things by consensus, and keeps its true leaders' identities secret, for fear that Israel will target them. But while harder-line spokesmen talk of dealing with Israel only on day-to-day issues, Atef Adwan, a newly elected legislator from Gaza, says that if there were a peace proposal similar to that proposed at the last set of talks, in Taba in 2001 (two states living side by side, a return by Israel of almost all the land

occupied in 1967, a shared status for Jerusalem and an agreed solution for Palestinian refugees), “Hamas would think seriously about the offer”. He is also softer on doctrine: *sharia* would be desirable as the main source of Palestinian law, he says, “but you can't have a stream that goes against the world”. By contrast, Muhammad Abu Teir, a Hamas MP from Jerusalem, is firm that “*sharia* is the reference, and I'm not afraid to say it”, though he also says he belongs to the Hanafi school, Sunni Islam's most liberal one.

A more immediate task, though, is to form a government. Ismail Haniyeh, who headed the party's electoral list, says the cabinet will contain technocratic (ie, non-political) ministers, maybe people from abroad. Some Fatah leaders are willing to participate, says Mr Adwan. But both in public and private, Fatah officials from the party's various wings say no: they do not want to share responsibility for decisions they will be unable to block; anyway, Fatah needs to concentrate on mending internal rifts. And it is enjoying a vicious glee that Hamas will have to deal with the myriad Palestinian problems on its own. The PA's president, Mahmoud Abbas, a Fatah man, who appoints the prime minister and so can more or less veto the cabinet, is expected to visit Hamas leaders in Gaza in a week or so to hash out a compromise.

Until then, the rest of the world will decide little. Foreign donors say that Hamas must recognise Israel and renounce terrorism to keep getting aid, but all are vague on how much time to give it. Hamas, in return, will not want to make concessions without getting “substantial guarantees”, says Ziad Abu Amr, an independent MP close to Hamas. Behind the scenes, the Americans are tougher: this week a Palestinian Democracy Support Act sent to Congress proposed strict conditions for aid to the PA. The Europeans are more divided: there are many interpretations not just of what should be done but of how legally binding the restrictions on terrorist financing are. “Everyone's just asking each other, ‘what are *you* doing?’” says a donor-agency official in Jerusalem.

More decisive is Israel, which this week stopped transferring the revenues that it collects on the PA's behalf to Palestinian coffers. That decision looks driven by Israel's upcoming election, at the end of next month, with the competing parties already vying to look tough on Hamas. “I don't see how [Ehud] Olmert [the acting prime minister] could do anything else,” says one glum but pragmatic PA official.

But perhaps a second intended effect is to worry the Palestinians. The Karni crossing, the main goods terminal on the Gaza-Israel border, has been closed since January 15th, allegedly for security reasons; Israel is making the PA look for smuggling tunnels nearby. Dairy products have virtually run out in Gaza's shops; according to the UN's Office for the Co-ordination of Humanitarian Affairs, Gaza's fragile economy is losing $500,000 a day in exports, as crops at the height of the greenhouse harvesting season rot in their crates.

In the long run, that kind of pressure could both destabilise Hamas and prolong the chaos that reigned under Fatah. In Beit Hanoun, in the Gaza strip, bands of Fatah-related gunmen are squatting in several apartment blocks, demanding housing in return for their fighting in the *intifada* from 2000 until last year. “If Hamas doesn't recognise Israel, the borders will stay closed and there will be no supplies,” says Mustafa Khalil, a gun-toting 21-year-old.

Such armed bands with nothing to do but air grievances are a recipe for trouble. There is also the risk of more organised muck-stirring. Many observers detect the hand of Muhammad Dahlan, the Fatah kingpin in the Gaza strip, in a series of armed demonstrations just after the election—though most also argue that these were the desperate moves of a man who knows he has lost much of his power: he barely scraped a parliamentary seat in his home-town of Khan Younis.

Meanwhile, in the dirt-poor Balata refugee neighbourhood on the edge of Nablus, the West Bank's biggest town, Muhammad Dandan, a local leader of the al-Aqsa Martyrs' Brigades, Fatah's

militiamen, warns that the ceasefire the various militant factions agreed to last year is over, and attacks on Israel will start “any day”.

Such talk, too, is political; everyone is waiting to see what Hamas will give them. To assert its authority, it has to bring the various militias under the umbrella of the PA's already-bloated security forces—and then work out what to do with the tens of thousands of men for whom there is no room. That will be its toughest early challenge, yet probably one of the West's first conditions for keeping the aid flowing.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iraq

Saddam Hussein's chaotic trial

Feb 2nd 2006
From The Economist print edition

Where is the former dictator's increasingly messy trial going?

AFP

A human-rights activist

THIS was meant to be a model trial to show Iraqis what true western-style justice is like after 35 years of Baathist rule. But in the face of assassination attempts, kidnappings, purges, political pressures and boycotts, Saddam Hussein's trial is threatening to collapse into a shambles. After another walk-out in protest against the court-ordered eviction of the former dictator and three of his co-defendants, the defence team has set 11 conditions for their return, including the removal of the (new) chief judge and the transfer of the trial "to a country which can offer security".

The special tribunal set up in 2003 by the American-appointed Iraqi Governing Council was beset by controversy from the outset. Human-rights groups accused it of failing to meet basic international standards. Some saw it as an attempt to impose victors' justice. Others feared it would degenerate into a long-drawn-out affair, with endless political grandstanding, like the current trial of Slobodan Milosevic, the former Serbian leader, in The Hague.

Despite the growing chaos at the hearings, the Americans so far have broadly respected the court's independence. Iraq's rival political factions have been much less scrupulous. The main Shia parties want to see Mr Hussein convicted and executed as quickly as possible. Indeed, if some of the more radical Shias, such as the followers of Muqtada al-Sadr, had their way, they would probably dispense with the trial altogether. The outcome is anyway, they argue, a foregone conclusion.

Most Kurds, on the other hand, having lived pretty well out of Mr Hussein's reach for the last 12 years of his reign, are in less of a hurry to get him into the ground. While as eager as any to see him punished, they prefer a long trial at which the details of the atrocities they suffered can be fully aired. This, they hope, will help their fellow Iraqis understand why Kurds, among other things, want to keep their *peshmerga* guerrilla force as their ultimate protection.

Such pressures help explain why, of the five judges appointed to try Mr Hussein, only two remain. One recused himself after learning that one of Mr Hussein's seven co-defendants may have been involved in his brother's murder; that was understandable. But then the presiding judge, Rizar Amin, a Kurd, resigned after criticism from people in the Shia-dominated government that he was being over-indulgent towards the accused. His deputy, Said al-Hamaashi, would normally have expected to replace him. But he was transferred to another trial chamber after being accused of being a Baathist, a claim he strongly denies. Raouf Abdel-Rahman has now taken over as presiding judge. But as a Kurd from Halabja, where some 5,000 Kurds died in a gas attack by

Iraqi forces in 1988, the defence says he cannot be impartial and is demanding his removal. He may also be a bit too tough for their liking.

When the court reconvened after a month's recess on January 29th, Mr Abdel-Rahman promptly announced that all “political speeches”, which had hitherto dominated the proceedings, were now forbidden. Anyone who broke that rule would be ejected and the trial continued without him. Despite that warning, Barzan al-Tikriti, Mr Hussein's half-brother and former head of intelligence, who has cancer, started complaining noisily about his lack of proper medical treatment, lambasting the court as “the daughter of a whore”. He was dragged yelling and kicking from the court. Amid the uproar, the judge ordered the expulsion of three more defendants, including Mr Hussein, who stalked out before he could be ejected, followed by the entire defence team. The hearings are continuing with court-appointed counsel in their absence. But for how much longer?

Such disruptive tactics have resulted in the court sitting for only ten days since the trial began nearly four months ago. They are aimed at getting it moved to an international court outside Iraq. Not only does the defence say this would ensure a fairer and safer trial but it would also remove the otherwise near-certainty of execution: international courts do not permit the death penalty. The dire security—two defence lawyers murdered, a plot to assassinate the chief investigative judge, the child of a court guard kidnapped, as well as the relentless violence in Baghdad—has helped their argument. But most Shias want their pound of flesh and are bent on getting it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Congo

Worries in the east

Feb 2nd 2006 | GOMA
From The Economist print edition

Hopes for quiet elections this year may dwindle once again

SOME United Nations officials play down his significance, while others have called for him to be “demystified”. Either way, Laurent Nkunda has again shown up the fragility of Congo's attempted transition from a decade of war to peace and democracy. In the last two weeks, men loyal to the former Rwandan-backed rebel-turned-general have again brought chaos to Congo's east.

They have repeatedly chased poorly paid and ill-equipped government soldiers out of towns across North Kivu province. UN peacekeepers have tried to bail the Congolese army out, sending in men and attack helicopters. But not before tens of thousands of civilians fled their homes, some 20,000 into neighbouring Uganda.

The renewed fighting follows Congo's hopeful referendum in December on a new constitution, when some 15m people voted freely, for the first time in living memory. The document was accepted; the poll was a dry run for presidential and parliamentary elections due later this year.

But Mr Nkunda's re-emergence, a year-and-a-half after he seized the eastern town of Bukavu, illustrates the difficulties. Some 18 brigades were supposed to be created out of the tens of thousands of gunmen who fought in various militias and rebel groups during Congo's five-year war. Just a handful have so far been set up, and they lack equipment and the incentive to fight. “How can a group of 300 overrun 2,300 of you?” General Gabriel Amisi, head of the government forces in North Kivu, asked his soldiers after they had fled from Mr Nkunda's men. “Are they extraterrestrial?”

They aren't. But they, and many others like Mr Nkunda, who are Congolese of Rwandan origin and fought alongside the Rwandan army during Congo's civil war, which caused as many as 4m deaths, are united by a sense of fear. They say reconciliation has failed and Congo's government in distant Kinshasa wants to fan anti-Rwandan hatred and to use the coming elections to do down Rwanda-linked easterners. Many Congolese in North Kivu accuse the government in Kigali, Rwanda's capital, of meddling in Congo's east. Gangs of Congolese youths taunt people who speak the language of Rwanda by chanting “Rwandans, go home!”

The UN is struggling to stop this from turning into widespread ethnic violence. Its forces, which have become more robust in the past year, are busy elsewhere, taking on a plethora of local and foreign rebel groups using Congo's east as a base. UN troops still fight alongside Congolese

government forces against rebels in the gold-rich Ituri district. A UN operation last week against rebels of the Lord's Resistance Army, a fanatical group of northern Ugandans, some of whom use eastern Congo as a haven, showed that UN forces are now willing to take greater risks. But the price—eight Guatemalan soldiers killed by the rebels—may dampen the UN's new zeal.

Elsewhere, in copper-rich Katanga, a separate war is raging between Congolese government soldiers and Mai Mai militiamen. But UN peacekeepers have their hands too full elsewhere to be able to deal with this latest punch-up. Foreign aid agencies say that 100,000 civilians have fled their homes. And some 10,000 Rwandan Hutu rebels, though quiet for now, still make people nervous in eastern Congo.

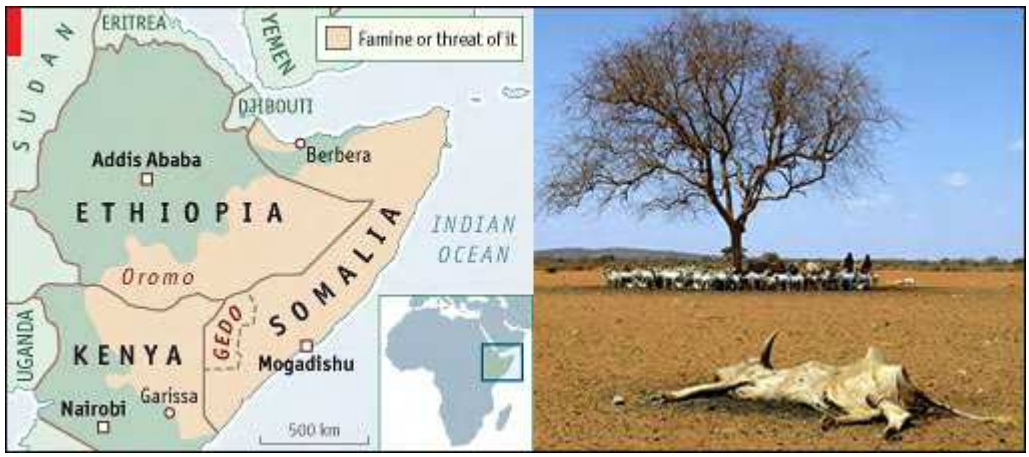
Meanwhile, in remote Kinshasa, parliament is debating what kind of electoral system Congo should have. For the moment, with chaos again threatening the east, that all seems rather academic.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Eastern Africa

Famine spreads

Feb 2nd 2006 | NAIROBI
From The Economist print edition



Hunger in Africa's lawless north-east could have dangerous results

A DROUGHT in the Horn of Africa, the worst in a decade, could have big strategic as well as humanitarian consequences. Some 11m people in the region are at risk of famine this year, according to UN agencies. If next month's hoped-for rains fail, as some meteorologists fear, that number could rise to 20m.

The drought is particularly acute in the badlands of northern Kenya, south-eastern Ethiopia, and southern Somalia, with some 6m at risk of starvation. Many will be saved by food and medicine sent from outside, but the livestock on which their economy relies are already dying. By one estimate, 80% of cattle in Somalia's Gedo region will die, even if the rains arrive.

That scale of loss could rock Somalia's fragile transitional government, which has shown recent signs of gaining ground. It will almost certainly lead to renewed fighting in the country's south, as one affected group tries to plunder the meagre resources of the other.

Ethiopia is inured to hunger, with 8m already relying on food help; even so, the drought in its arid south has particularly hit Oromos and Somalis, who anyway resent their exclusion from power. In some parts of Ethiopia's Oromo and Somali federal regions, it is hard to distinguish separatist violence from cattle rustling. And some of the raids, spilling across the border into Kenya, risk provoking the government in Nairobi.

The problem may get worse. There has been only one year of good rain in the wider region since 1999. Some scientists suspect climate change. Population growth has, in any case, long ago outstripped resources. In many areas, herders have only half the livestock they need to keep going. Food aid may keep more people on the land than can ever feed themselves, even when the

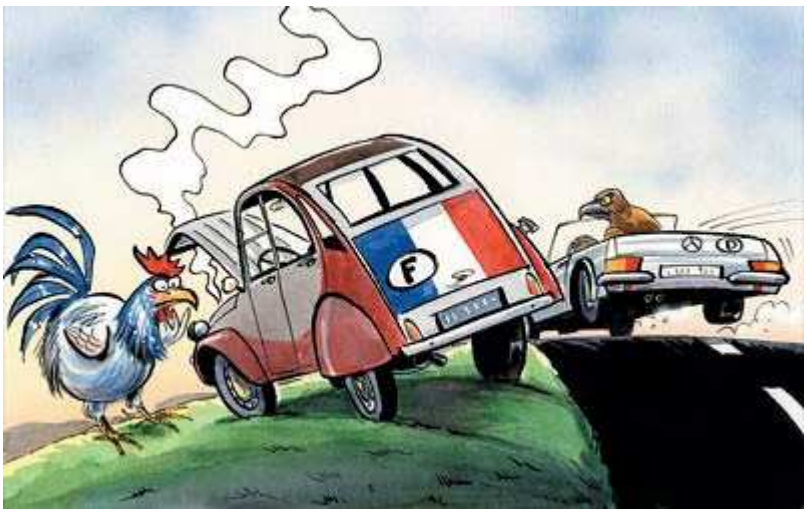
rains are on time. The upshot could be roaming, well-armed, hungry people spilling out of the badlands in their thousands.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Gloom in France

The unbearable lightness of being overtaken

Feb 2nd 2006 | PARIS
From The Economist print edition



The French are losing the consolation of doing better than the Germans

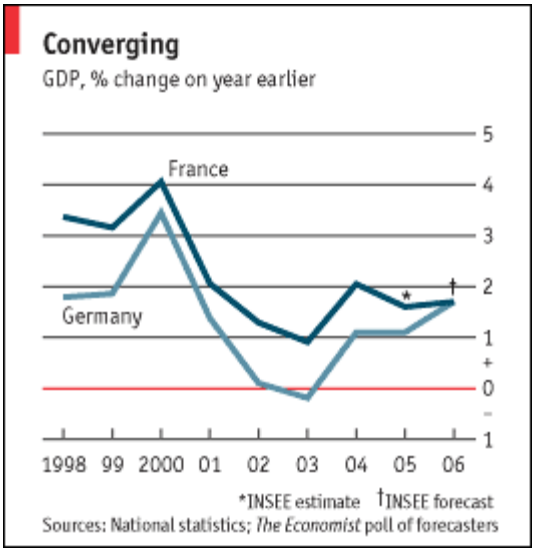
Get article background

FOR the past few years, the morose French have at least been able to console themselves with one thought: while their economy may be lacklustre, Germany's is far worse. Now even that consolation is fading. With business confidence strong and a new government in charge, Germans are talking up their prospects for the first time in years, while the French remain in the dumps. If reform is beginning to pay off across the Rhine, whatever happened to France?

To be sure, the French economy is far from collapsing. This year, predicts INSEE, the official statistics body, GDP will grow by 1.7%, a notch up on last year's 1.6%. Consumer demand remains strong. And unemployment, although still a high 9.5%, fell yet again in December. For the first time in years, France's economy is now expanding almost as fast as Britain's, and it will also match German growth this year.

Yet the closing gap between France and Germany represents a marked change from previous years. Throughout the recent downturn, as well as the booming late 1990s, France's economy has consistently outperformed Germany's (see chart). Unlike Germany, France has avoided outright recession. For the French, this has been an unspoken source of comfort. If the American and British economies were tearing ahead, leaving France looking torpid, well, no matter: Germany

was even farther behind.



That is no longer true. Admittedly, signs of revival in Germany remain somewhat mixed. German retail sales in December were disappointing, and unemployment has risen once more. But the German business-confidence index in January was at its highest in over five years, whereas the French equivalent has been flat for three months in a row. The talk in Germany is of a revival and of enthusiasm about Angela Merkel; in France it is still about policy blockage. Dominique de Villepin's government is under fire both from the Socialist opposition and on the streets. Public-sector workers were due to strike on February 2nd; protests against a new labour contract for the young are planned for February 7th. “Germany, which has recovered its lost competitiveness, is leading the pack,” comments Eric Chaney, chief European economist at Morgan Stanley, “while France is lagging.”

How far has France got with economic reform? In recent years, a string of reports now gathering dust on ministerial shelves have identified the chief brakes on growth: the weight of the public sector, high taxation, a rigid labour market. The difficulty has not been deciding what to do, but doing it. And the centre-right majority elected in 2002 has proved little better in this respect than its centre-left predecessor. A few reforms have been passed in the face of fierce protests. Under Jean-Pierre Raffarin, the previous centre-right prime minister, reforms of both public-sector pensions and public health-insurance were pushed through despite demonstrations and strikes. Yet, in retrospect, these look like reformettes, not thorough overhauls.

Thus the 2003 pension reform lengthened the number of years that public-sector employees must work before qualifying for full pensions. But it left unchanged the absurdly generous regimes for the most sensitive (and strike-prone) employees, such as train drivers and electricity workers. A recent study by the government's pensions advisory council concluded that, despite the reform and with no improvement in unemployment, spending on pensions will swell from 12.8% of GDP in 2003 to 14.4% by 2020.

Similarly, the 2004 health reform laid down new rules in an effort to control costs, including an obligation to consult a family doctor before seeing a specialist so as to qualify for full reimbursement, and the introduction of a non-refundable €1 ($1.20) payment per consultation. The aim was to curb a soaring health deficit, which hit €11.6 billion in 2004. Yet a recent government-commissioned report by Michel Pébereau, a banker, said that there would still be at least a €22 billion shortfall in the health-insurance fund by 2015.

All the while, despite frequent promises to reduce the size of the public sector, its ranks have swollen. Since Jacques Chirac became president in 1995, the civil-service payroll has grown by 13%, to 5m. The upshot is unsustainable pressure on the public finances. This year, for the first time, almost the entire proceeds of French income tax will go to pay interest on public debt. In his report, Mr Pébereau said that, on present trends, France's public debt will jump from 66% of GDP to 100% by 2014.

On the labour market, Mr de Villepin has at least grasped the need both to bring down joblessness and to loosen rules that deter job creation. He has made jobs his central preoccupation, conducting weekly pit-stop trips to job centres or training schemes. He has introduced a more flexible two-year contract for firms employing fewer than 20 workers. Now he is trying to rush

through parliament a similar contract for those aged under 26, which would make it far easier to shed workers during their first two years. This has prompted an outcry from the unions and the opposition, which accuse him of institutionalising insecurity for the young.

Mr de Villepin is surely right to try to reduce joblessness, but he also has a political need to secure results fast. A presidential election is due in the spring of 2007, at which he may well be a candidate. So he is not prepared to wait for the private sector to create jobs, but has embarked on an ambitious state job-creation scheme, which will recruit tens of thousands of young people to work in job centres, town halls, sports stadiums and the like.

Particularly after last autumn's suburban riots, the need to create more jobs for young people has become pressing. But Mr de Villepin has set himself a potential trap. The more he subsidises a fall in unemployment, the more pressure he will put on the public finances—and the more this will weigh on any economic revival. As Germany has found by bitter experience, in the short run tough economic reforms and falling joblessness do not easily go hand in hand. But if France is to keep up with Germany, let alone the rest of the world, they remain essential.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

French decline

Predators or prophets?

Feb 2nd 2006 | PARIS
From The Economist print edition

The useful function of declinologists

AP

Making a show of melancholia

A FEARED species is stalking the French political land: the declinologist. “Beyond the eminently respectable professions,” declared Dominique de Villepin, the prime minister, last month, “I see the appearance of a new population in our country, the new experts: declinologists.” President Jacques Chirac castigated the same breed for its “permanent self-flagellation”. What is this animal that is so ruffling the governing elite: professional pessimist, or lucid analyst of the French mood?

The purest specimen is Nicolas Baverez, who has just published “New World, Old France”, a follow-up to his devastating 2003 book, “France in Freefall”. Cataloguing the “nihilism” of the French, he foresees a “national crisis, unequalled since the agony of the fourth republic”. But Mr Baverez is not alone in his gloom-mongering. A fistful of new books carry such titles as “France's *Malheur*”, “Gallic Illusions” and “France in Crisis”. The Grand Palais in Paris has even staged an exhibition on “Melancholy”.

The political class grumbles that such writers are whipping people into a frenzy of unwarranted *morosité*. Are they really as glum as the declinologists make out? Certainly, the French seem to believe that their country is heading for the wall. No less than 66% think the economy is in recession (it isn't). Fully 70% told a CSA poll for *Challenges*, a magazine, last month that future generations would live less well than they did today, and 72% thought that the French were unhappy. Given last May's rejection of the European Union constitution and the autumn's suburban riots, such discontent may be unsurprising.

Yet, when asked about their personal condition, 84% told the same CSA poll that they were happy. More intriguing, new figures show that French women last year had 807,400 babies, a rise

of 0.9% on 2004. This gives France Europe's highest fertility rate—1.94 children per woman—after Ireland. If life really is so awful in France, it's worth asking why so many French adults are bringing new lives into this vale of tears.

Collective disgruntlement, but individual content? That may still chime with the declinologists' point. Their complaint is not against the French people but against an elite that fails to tell the truth about the need for change. And that, the declinologists might argue, is precisely the useful function that they are performing in the French political ecosystem, not that of predators on an unsuspecting public.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Germany and the family

The martyrdom of Ursula

Feb 2nd 2006 | BERLIN
From The Economist print edition

The coalition deal on child care says much about Germany's politics

"CHASING another pig through the village." This German expression, meaning pushing a new cause before finishing an old one, was pertinent under Chancellor Gerhard Schröder. But under Angela Merkel's grand coalition, fewer political pigs run around. This is partly because the new government leaks little and backstabs less.

That makes even small rows more interesting. The latest one concerns tax breaks for child care. As part of its €25 billion ($30 billion) programme to boost the economy, the government wanted to induce working parents to hire nannies, creating badly needed service jobs and perhaps boosting Germany's low birth rate. Double-income families with children under 14 would set up to €4,000 a year of child-care costs against taxes; those with children under six would qualify only if they spent more than €1,000 (to avoid the subsidy going simply to pre-school fees).

It took some time for the plan's logic to sink in. When it did, there was uproar, showing how German politicians are stuck in the past on family matters. The Social Democrats (SPD) found the measure "socially unjust" because it was aimed at richer families. The Christian Social Union (CSU), the Bavarian sister party of the Christian Democrats (CDU), complained that traditional families with one (male) breadwinner were at a disadvantage.

For Ursula von der Leyen, the (CDU) minister of family affairs, and famously a mother of seven children, the row is a mixed blessing. It has raised her party's profile in family affairs, but it has also shown how far it and especially the CSU have to go to accept that there is no longer a monolithic view of what makes a family. Traditionalists even mutter that the busy politician must be a bad mother.

The argument has at least raised Ms von der Leyen's own profile, especially among working mothers. Until recently, critics were saying that, if she has two degrees (in economics and medicine), can look back at four years spent in Silicon Valley and boast such a large brood, it was only because she came from a family rich enough to pay for generous child care. Now the critics have seen her trying to win more help for all working mothers.

The argument over child care has also changed perceptions of the government, by showing how hard it is for the two parties to work together. The SPD reneged on the original plan, partly because it is on the defensive. Its poll ratings have dropped to near 30%. It could lose the March 26th election in Rhineland-Palatinate, the only big state still to have an SPD premier. And Germans seem to have fallen in love with their new chancellor, not least because she sometimes sounds like a Social Democrat herself. None of her predecessors was as popular as she is after just two months in office. Pundits are talking of *Merkelliebe* and wondering how long it will last.

Yet the eventual compromise on child care hammered out this week also shows that it will be

harder for Ms Merkel to cut as good a figure at home as abroad. In a win for the SPD, child-care expenses will be deductible from the first euro for all ages, up to €4,000, but only for two-thirds of what is spent. To keep the CSU happy, single-earner families are included, but only for children between the ages of three and six. This messy compromise will simply remind voters of the inherent tensions inside the grand coalition.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Italy's election

A man of his words

Feb 2nd 2006 | ROME
From The Economist print edition

The Italian president ties the prime minister to an election date

THE politician's art is to say one thing and mean something different. Silvio Berlusconi, Italy's prime minister, is a master. Before Christmas, he told a press conference that parliament would be dissolved on January 29th and an election held on April 9th. But he then upset the opposition and the president, Carlo Azeglio Ciampi, by hinting that the election might be delayed to May. Mr Ciampi, whose seven years in office end on May 13th, was not pleased. The next president can be chosen only after a new parliament is convened; with local elections and a referendum also on the calendar, there would have been election overload in May.

The face-off between president and prime minister has now ended with a terse statement from the president's office. Mr Berlusconi will hold a cabinet meeting next week to confirm the election on April 9th, “a date always considered by President Ciampi as fixed and non-postponable for well-known constitutional reasons”. Mr Ciampi wanted Mr Berlusconi's commitment in writing to insure against any further misunderstandings.

Mr Berlusconi's eagerness to cling to office may owe something to his wish to put laws on the statute book that may help him off serious legal hooks. On January 20th, Mr Ciampi sent back to parliament a bill on appeal procedures. But as well as wanting more parliamentary time, Mr Berlusconi may also have hoped to exploit the period before parliament's dissolution for electoral reasons. Opinion polls show his ruling centre-right coalition lagging some five points behind the centre-left opposition—though the gap has narrowed.

Once the campaign officially begins, equal-time rules for television take effect. But until February 11th Mr Berlusconi can exploit both his gift of the gab and his control, direct or indirect, of as much as 85% of Italian television. And he has been doing so, popping into and monopolising all manner of programmes. This week he offered a new eye-catching trick, promising to abstain from sex until April 9th, then backtracking to say that he is indulging only moderately because of his workload.

One more sign that the campaign is under way is the switch of roadside advertisements from promoting mobile phones to pushing politicians. Here too Mr Berlusconi's Forza Italia party and its allies dominate the pre-election landscape. But the hoarding of Italia dei Valori, a small opposition party led by a former anti-corruption magistrate, still stands out: “Legality, legality, legality. Antonio Di Pietro has made this his programme”.

The hoarding may raise only wry smiles, but on January 28th Mr Di Pietro received a more useful boost from the head of Italy's anti-Mafia service, who urged parties not to put forward any candidates under investigation. Alas, he will be unheeded: as now, even some guilty of serious crimes may sit in parliament. Under electoral rules introduced by Mr Berlusconi's government, ballot papers show only the political parties, not candidates' names or criminal records.

Spain and its regions

Zapatero's footsteps

Feb 2nd 2006 | MADRID
From The Economist print edition

The prime minister wrongfoots opponents of his devolution plans

SPAIN'S prime minister, José Luis Rodríguez Zapatero, this week boldly went where no predecessor had for 25 years: to the north African enclaves of Ceuta and Melilla. His two-day visit fulfilled a pledge last November, when thousands of immigrants tried to reach European territory over razor-wire fences. Eleven were killed, and human-rights groups attacked the Spanish for sending back others whom the Moroccans abandoned in the desert.

But times have changed. This week, Mr Zapatero was mobbed by Africans at a refugee centre. He stressed his commitment to "social initiatives" which would turn Spain into a shining example of humane welfare policies and respect for human rights. He had another agenda too. His first port of call was Melilla, now a hotbed of military disenchantment over Spain's restive regions. Few Spaniards will have missed the echo: it was from Spanish Morocco that Franco launched his coup in 1936. Mr Zapatero's visit was, in effect, a counter to right-wing hostility to greater autonomy for Catalonia.

The trouble began a few weeks ago when a general spoke of "serious consequences" if the government ceded too much to the Catalans. He was sacked, but a captain in Melilla warned the prime minister of broad unease over how Spain was being "dismembered". Last week the leader of the failed 1981 coup, Colonel Antonio Tejero, backed calls for a referendum on Catalonia, saying in a letter to a Melilla newspaper: "They [the Socialists] are playing with the integrity of Spain...they are trying to shatter the Spanish crown."

Mr Zapatero reassured the colony's 70,000 people of Spain's commitment to the territory. "The government is very conscious of the singularity of Melilla, which needs special attention," he added. Because Spain has good relations with Morocco, which claims the enclaves, Mr Zapatero got only a mild rebuke from Rabat. But his words were not enough for the opposition at home, which wanted him to talk up the enclaves' *españolidad*, or Spanishness.

Nicknamed Bambi by detractors and widely criticised as a lightweight, Mr Zapatero may now be finding his feet. His visit to North Africa has deflected attacks from the right. And thanks to deft bargaining by his negotiator, Alfredo Pérez Rubalcaba, he is close to an accord on Catalonia. Mr Rubalcaba's trick was to win support from Catalonia's conservative opposition, Convergence and Union. The latest draft recognises Catalonia as a "nation" in the preamble and gives it greater control over taxes. But it is a far cry from the radical text first proposed by the Catalans.

This sleight of hand has not only wrongfooted the opposition; it has also sidelined the left-wing nationalists, who are threatening to quit Catalonia's ruling coalition. But their leader, Josep Lluís Carod-Rovira, is willing to continue talking. No doubt the nationalists will ask for more, but Mr Zapatero has taken more steps towards his “plural” vision of Spain without conceding real sovereignty.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Romania and the European Union

Netting the untouchables

Feb 2nd 2006 | BUCHAREST
From The Economist print edition

Romania's efforts to satisfy the European Union are bearing fruit—belatedly

AFP

Salty Captain Basescu

THE smell of fish being fried hangs over Bucharest. The European Union wants progress in the fight against top-level corruption and, as Brussels mulls over when to admit Romania, the authorities have started hunting impressive fish: a deputy prime minister, George Copos, an ex-prime minister, Adrian Nastase, and a former economy minister are under investigation. All deny wrongdoing. But the sight of a previously untouchable class facing any scrutiny is welcome. Since the toppling of Nicolae Ceausescu in 1989, politics in the biggest Balkan country have seen theft matched only by impunity.

No longer. In a huge criminal-justice shake-up, Romania is replacing most of its judges and prosecutors. Last year 1,200, nearly a third of the total, quit. The old lot cannot be sacked; the judiciary is independent. But a new law makes staying unattractive, by requiring officials and their families to publish their assets and incomes on the internet. Villas, cars and other toys are no longer perks of corruption, but an embarrassment. There has been much ridicule of the excuses made by former untouchables. Mr Nastase said his wealth came from his wife's elderly aunt, who had applied previously hidden talents to the property market.

Other changes pushed through by the impressive non-party justice minister, Monica Macovei, include random allocation of cases, so that well-connected defendants can no longer rely on finding a friendly judge or prosecutor. Next she wants computerised courtrooms, quicker trials and better bailiffs. It is too early to say if the new system will be clean and efficient—some fear that greenhorns will be both incompetent and slow. But Romanians' cynicism about their rulers is ebbing. Consider the 60,000 stray dogs that have long menaced Bucharest, biting 80-odd people a day. This week, after a dog killed a Japanese businessman, the outcry and the response were remarkable. The mayor has promised a crash programme of canine sterilisation and euthanasia.

Two figures symbolise the new mood. One is the soft-spoken Mrs Macovei, who once ran the Romanian Helsinki Committee, a pressure group. As justice minister, she now faces down tycoons and politicians used to a minister who takes orders rather than gives them. The other is the country's president, Traian Basescu. A former sea-captain and then a popular mayor of Bucharest, he is now dragging Romania through 16 years of missed reforms.

Justice is only one example. Another is child protection. The country's orphanages were once a “child supermarket” for perverts, pornographers and dodgy adoption agencies, says Emma Nicholson, a European parliamentarian who champions children's rights. She now tells other countries to copy Romania's reforms. Last week she and J.K. Rowling, of Harry Potter fame,

visited Romania to congratulate Mr Basescu and his colleagues—and to push for mother-friendly reforms in health care, another ill-run and corrupt public service.

A cheerful, salty figure, Mr Basescu is despised by some Romanians with roots in the old elite, who mock his blunt speech and populist touch. But these please the larger number that want change. He is strangely reluctant to deal with the bloated and sticky-fingered intelligence services, arguing that they are now under control and no longer tainted by the communist past—“80% of the officers joined since 1989.” He adds that spooks are needed to fight corruption and organised crime. Maybe he can't risk offending them.

Romanians still seem ill-informed about the effects of EU membership. Honey-sellers in the market at Ploiesti, north of Bucharest, swarm around a foreigner, asking about new hygiene rules. The answer may be on the internet—but most Romanians are too poor to surf. When customs barriers fall, there will be a blast of new competition from places like Poland. But the gains should be huge: investor confidence, more freedom to travel. At least 2m of Romania's 22m people work abroad, mostly in farm jobs.

The European Commission will issue its report on Romania and Bulgaria in May; an EU summit will then decide when to admit them. Romania is poorer and worse-governed than most, but it is also too big to ignore. So some are suggesting postponing membership by a year, or even indefinitely. Yet Romanians have a ready rejoinder: things are changing fast, if belatedly. The last bunch of new entrants were admitted more for their effort than their achievement, yet there are few regrets today. In short, there is plenty for the EU to dislike about Romania—but keeping it out would not speed its progress.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Culture wars

Feb 2nd 2006
From The Economist print edition

Fashionable talk of a "European culture" is pointless and may even be damaging

ASKED what he thought about western civilisation, Gandhi famously replied that he thought it would be a good idea. European leaders seem to be learning from the Mahatma. Western civilisation—or European culture, which they consider the same thing—is a good idea. And it would also be a good idea to rest the legitimacy of the European Union upon its virtues. That, at any rate, is a conclusion cropping up increasingly often in Europe's post-constitutional debate about its future.

Ideals animate every endeavour worth its salt. Robert Musil, an Austrian novelist at the turn of the 20th century, wrote that each of us has a second country in which everything we do is innocent. For Americans, that second country is an idealised America, where every child can become president and through which runs the yellow brick road. In European nations, Europe is that second country. When Franco's dictatorship fell, Spaniards shouted in the streets that "we are Europeans now." To peoples little affected by the appeals of God or country, the EU has become (to borrow a favourite phrase of Senator John McCain), "a cause greater than themselves".

But European leaders now want to go beyond idealism to assert particular qualities of Europeanness and make specific arguments about the EU. At a recent gathering of the panjandrums of politics and the arts in Salzburg, they did so by making three claims: that there is a distinctive European identity, enshrined in a common European culture; that European culture inspires people in ways that boring things such as markets and trade do not; and that a common European culture should be embodied in common European institutions, that is, in the EU. How plausible are these assertions?

In Salzburg, Dominique de Villepin, France's prime minister, used as his measure of a common cultural identity a notion borrowed from George Steiner, a polyglot professor: “Europe is made up of cafés”. But as Mr Steiner himself admitted, this Europe would not include Britain, Ireland, most of the Baltics and Scandinavia—and is thus hardly a useful way of asserting a common identity in an EU of 25. Mr de Villepin decorated his address with erudite references to such cultural totems of *Mitteleuropa* as Gustav Klimt, Elias Canetti, Stefan Zweig and Mozart (whose 250th birthday it was). All are worthy of admiration. But as a Greek writer, Petros Markaris, swiftly retorted, this ignores the cultural contributions around Europe's fringes—a pantheon without Homer, Cervantes, Shakespeare or Ibsen.

The right conclusion, however, is not that people are using the wrong definitions of Europe: it is that “Europe” cannot really be defined in terms of a single culture at all. For centuries, culture has been as often a divisive as a unifying force. Half the continent is a battlefield covering the bones of those who died in defence of competing values (all those wars of religion). And a definition that embraces the whole continent—such as respect for human rights, the rule of law, care for the poor and a love of liberty (the list offered by one European commissioner)—does so only because it not distinctively European.

It is true that, compared with Americans, Europeans spend much time thinking of, talking about and subsidising their high culture. But this does not mean they are inspired by it. Like the rest of the world, Europeans' cultural references are at least as populist and American—“Desperate Housewives”, “Temptation Island”—as they are high-minded and European. Proxy measures of creativity, such as patent awards, the quality of universities, the numbers of films and videos, are all strongly in America's favour. It seems extremely unlikely that cultural vitality will somehow renew European ideals about the EU. For too many, it is America that is creative and exciting, not Europe.

Even if Europe were more stirring than it is, this would still not impinge on the EU one way or the other. Concepts of pan-European identity sprang up long before there was an EU and are independent of it (Francis Bacon referred to “we Europeans” in 1623). And the EU should think long and hard before trying to co-opt high culture in order, as Jacques Delors once put it, “to give Europe a soul”. The last people to try to do that on the continent were the communists of eastern Europe. As Hungary's culture minister reminded the Salzburg gathering, they did this as a substitute for democracy, not as an expression of it.

In short, each of the three claims about European culture is dubious. Even together, they hardly warrant the claim that the EU, which in the 1950s embodied hopes of peace and prosperity, can come to embody cultural aspirations half a century later.

Talking Turkey

But there is more to the debate than this. At best, talking about culture is a distraction from the harder task of economic reform. It could also become an insidious way of stopping Turkey from joining the EU (Turkey might meet the formal conditions of entry but not count as culturally European). Francis Fukuyama, a professor at Johns Hopkins University, in Washington, DC, once argued that Europe could be the front line in the stand-off between western and Islamic cultures. Yet two days of debate on European culture in Salzburg barely mentioned Islam and had nothing to say about the challenge of dealing with it, even though some Islamic countries were at the time boycotting Danish products in response to the publication in a Danish newspaper of rude cartoons about the prophet Muhammad.

Worst of all, talk of Europe's cultural distinctiveness can be a way of attacking globalisation. Indeed, for many people, that may be the whole point of the exercise. “Europe...risks losing its

specific identity in the movement of globalisation," said Mr de Villepin. "If Europe becomes merely an economic project...then our Europe has no future." Perhaps he is right. But it is telling that, in the face of globalisation, European leaders instinctively resort to invoking the glories and consolations of the past.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Northern Ireland

Ulster's flagging peace process

Feb 2nd 2006 | BELFAST
From The Economist print edition

EPA

A report that the IRA did not in fact get rid of all its weapons has complicated the path to devolution

PARLIAMENT BUILDINGS doesn't see much action these days. A neo-classical pile perched on a hill at Stormont, outside Belfast, it is home to the Northern Ireland Assembly, a legislature that has not met for more than three years. So empty time and space get filled with other events—grand dinners, the odd concert, a meeting of the Protestant Orange Order, the funeral of George Best.

Stormont may be open to bookings for some time yet. A report made public on February 1st by the Independent Monitoring Commission (IMC), a watchdog that analyses intelligence about paramilitary groups, has reduced hopes that the British government can hand over the place soon to Northern Ireland's politicians.

It was not supposed to be this way. In July, the Irish Republican Army (IRA) pledged to renounce violence and become a “purely political” organisation. In September, it surrendered its weapons. The British and Irish governments asked the IMC, which usually publishes every six months, for a special report, in the expectation that it would show the IRA busily beating swords into ploughshares. Attention could then shift to convincing Ulster's unionists that the IRA's political allies in Sinn Fein were worthy of sharing power.

But the report fell some distance short of that target. The IRA is moving in the right direction, the IMC found, but progress is less than perfect. IRA members are still involved in robbery, petrol smuggling and financial crime. This is possibly without the approval of their leaders, though; the commission reckoned the IRA's top brass are genuinely committed to a political strategy without

terrorism. It compared winding up the paramilitary group to turning an oil tanker around, noting that it takes time and there is “likely to be added turbulence in the wash as it does so”.

Much of this criminality was known, or suspected. Other findings may do more to keep Stormont's corridors crowd-free. There were reports from British intelligence services that the IRA kept back some of its weapons when it allegedly disposed of them in September, the commission said, and this was more than a few hand guns in attics. John de Chastelain, the retired Canadian general who led the group that verified the original IRA decommissioning, disagreed, reaffirming that all weapons had indeed been handed over. Britain's Northern Ireland secretary, Peter Hain, did his best to explain why the two positions were not contradictory, but it appeared an uncomfortable task.

A second finding by the IMC—that the IRA's intelligence unit, a formidable group that has penetrated police and army premises, private companies and government offices, is still at work—is proving almost as controversial. Spying is a particularly raw topic, for the devolved government at Stormont was suspended in 2002 because the IRA appeared to be stealing British government documents. When Denis Donaldson, the Sinn Fein official accused of co-ordinating that operation, recently admitted to being a longstanding British agent, it allowed republicans to accuse his handlers of cooking up the whole plot.

So instead of easing new talks about devolution, broken off after the IRA's robbery at the Northern Bank in 2004, the IMC report has made it likely that these will begin in acrimony. Talks are scheduled to re-start on February 6th.

What will they talk about?

Mr Hain and Dermot Ahern, the Irish Republic's foreign secretary, in trilateral meetings with each political party, have their work cut out to convince the unionists that the IRA is cleaning up its act. In fact, the IMC found more evidence of violence and criminality among loyalist paramilitaries than among the nationalists.

Not that the Reverend Ian Paisley is going to give the IRA any points for that. The leader of the Democratic Unionist Party (DUP) now feels particularly justified in his resistance to sharing power with Sinn Fein, thanks to the IMC report.

Britain and Ireland had hoped that the man most likely to lead a revived Northern Ireland administration would be tempted into power-sharing by the prospect of the top job. But Mr Paisley, who turns 80 in April, is not in a hurry. To friends he has likened his role in these talks to a leisurely turn on a bicycle: he is most intent on avoiding a speed from which he cannot turn around. The governments' best bet may be that the IMC, having shown itself to be no pussycat, will persuade his party with a better account of the IRA when it next reports in April.

The other task is to convince Sinn Fein to join in policing. On February 16th, the British government will introduce legislation permitting the devolution of policing and judicial powers. A necessary but not sufficient condition for Sinn Fein (they will want to see how the powers are implemented before committing themselves), it will nonetheless give Gerry Adams, Sinn Fein's president, proof to show his followers that things are moving.

In the end, the sheer weight of time may wear down opponents. Nearly 12 years have passed since the IRA first declared a ceasefire. Elections to the assembly are scheduled for 2007. Mr Hain says he does not intend to ask voters to turn out and elect representatives to a body that does not meet. He also says it is increasingly hard to justify paying the assembly members that already exist.

That gives him just over a year to find common ground between Mr Paisley and Mr Adams. In the wake of the IMC report, it will be a wonder if he manages even to introduce the potential partners in government to each other: they have never met face-to-face. Mr Hain says he came to Northern Ireland nine months ago expecting politics to be complicated, but also found them a bit surreal. He would be wise to remember it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Religion and free speech

Propheteering

Feb 2nd 2006
From The Economist print edition

A law pushed by Labour strategists has ended up boosting the Tories

TONY BLAIR'S second defeat in the House of Commons since 1997 made his government look strangely absent-minded. Despite protests from a throng of hymn-singing evangelical Christians and banner-waving secularists outside Parliament, the government didn't notice until the last moment that its bill against religious hatred was in trouble.

The defeat, on January 31st, also revealed a useful streak of ruthlessness in David Cameron's Conservatives. Tory whips lifted a strategy from “The West Wing”, a Washington TV drama, affecting indifference to the result of the vote and hiding backbenchers around Westminster. More than 20 Labour MPs rebelled and over 40 failed even to vote. The prime minister had wandered away from the House before the government lost the second vote by a margin of one. With more contentious legislation in the pipeline, he now promises to turn up more often. Government whips will have to shape up too.

But for those whose top priority is freedom of speech, the result still means an undesirable law on the statute books. Religious hatred, in the government's eyes, is like racial hatred. A law against inciting racism already protects religious groups like Jews and Sikhs who also form racial or ethnic communities. But because Muslims are not a race, the law has not covered them. Smoothing this wrinkle was the government's stated aim. The new law makes it an offence to use “threatening” language with the intention of stirring up religious hatred. Had the government proposal been passed, “reckless” use of “threatening, insulting and abusive” language (the legal test for the race laws) would have sufficed for a prosecution.

It is hard to know what this will mean. Pressed for an example of what inciting religious hatred looks like, the government always offers the same one: a poster showing a woman wearing full hijab with a strap-line saying “mind the suicide-bomber”. Paul Goggins, the hapless minister who had to make the government's case, argued apologetically that the law would only be used infrequently. So why pass it, many will ask.

Improving relations between Labour and Muslim voters is the main reason. The Muslim Council of Britain (MCB) has lobbied hard for a law that would protect its constituency. Sir Iqbal Sacranie, the MCB's head, called the law “an important step forward” but complained that Muslims would still enjoy less protection than Jews and Sikhs—and predicted that the far right would exploit this loophole.

Not all Britain's Muslims were so keen on changing the law, though. Ghayasuddin Siddiqui, head of the Muslim Parliament, fears that a law designed to protect Muslims could end up limiting their freedom. In short, the main winner from the tussle is Mr Cameron and his party, who have briefly made Labour look out of touch and disorganised.

London's police

The other Blair

Feb 2nd 2006
From The Economist print edition

Why Britain's most prominent police officer is so unpopular

SIR IAN BLAIR, the head of London's Metropolitan Police, has been in the job for one long, difficult year. Two terrorist attacks and a series of gaffes have wounded him badly enough that another catastrophe would surely finish him off. So precarious is his position that friendly newspapers are calling on him not to resign—for the time being.

Others have been less kind. Journalists were infuriated by Sir Ian's musings, on January 26th, about why the murder of two schoolgirls in 2002 attracted so much coverage (one reason, he hinted crassly, was that they were white). Allies in the police reckon Sir Ian's lofty tone is partly to blame, and that the storm will blow over. What should be more troubling, though, is the ease with which newspapers have been able to find coppers at all levels of the force who will condemn their boss.

The most obvious cause of Sir Ian's troubles is the shooting, on July 22nd, of Jean Charles de Menezes, a Brazilian man who was mistaken for a suicide-bomber. A few hours after the shooting, Sir Ian appeared to suggest that Mr de Menezes had been acting suspiciously. Having realised his error, he failed to set the record straight. Subsequent leaks from an investigation into the shooting hint at widespread police incompetence. Even if Sir Ian escapes censure in that report, another inquiry into what he said, and did not say, looms.

Compounding the impression of a police force in crisis, crime in London appears to be rising. This is probably a misapprehension. The police are recording more crimes—12% more than they did in 2001-02—but this has less to do with the real level of crime than with the gradual adoption of counting rules, imposed on the police in 2002, that inflate the figures. Confusingly, the British Crime Survey suggests that violent crime in London has fallen by 30% in the past four years.

None of this wholly explains the campaign against Sir Ian. Headlines about soaring crime, whether justified or not, are hardly novel. And knives were being honed before Mr de Menezes was killed. Underlying the current crisis is a more fundamental gripe about how London's—and Britain's—police are organised.

When he was a mere deputy commissioner (a position that attracts less scrutiny), Sir Ian launched an attack on policing's most cherished figure: the omnipotent constable. Why, he asked, should expensive, highly-trained officers be expected to guard public monuments or watch endless hours of security-camera footage? Such things could be done more cheaply, and possibly better, by civilians.

To test that theory, Sir Ian championed community-support officers. These are thinly trained, moderately paid folk whose job is to walk the streets and reassure the public. The police union was furious. To placate low-ranking officers, the “plastic policemen” were initially allowed to do

little. But on January 18th, the Home Office announced that their powers would be widened. That set tongues wagging.

Together with Ken Livingstone, the mayor of London, Sir Ian also pushed for a return to old-fashioned neighbourhood policing. In a scheme that is now being rolled out nationally, teams of coppers and support officers are assigned to wards and told to get to know the locals. The idea is to stop crime before it starts, rather than sweeping in with blue lights flashing after an enormity has occurred.

That sounds good to many Britons, who had been demanding such an approach for decades. But for those in the specialised crime squads, it is a threat. A big cause of Sir Ian's unpopularity among the police is the fact that preventing crime is a lot less fun than solving it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Local health drive

Changing places

Feb 2nd 2006
From The Economist print edition

But there is a hole in the plan to shift medical care out of hospitals

POLITICIANS, like television producers, know where the action and glamour are in medicine. No exception, Tony Blair's government has long concentrated on hospitals in its drive to mend the National Health Service. The overriding political priority, backed by massive amounts of extra funding, has been to cut waiting times, improve services and rebuild facilities in big NHS acute-care hospitals.

Now Patricia Hewitt, the health secretary, wants a change of scene and a new direction. In what she calls a “major strategic shift”, medical care and resources are to be moved out of hospitals. Her aim is to put 5%—around £2.5 billion ($4.4 billion)—of the hospital budget into primary-care settings, including 50 new “polyclinics” that will provide a bigger range of services than traditional GP practices.

If more is to be done outside big hospitals, there will be less need for grandiose rebuilding projects. Instead of planning to pay £12 billion to renovate hospitals over the next eight years, the government now intends to spend around £8 billion.

The reform offers greater convenience to patients, who will be able, for example, to get diagnostic tests done closer to home. More minor surgery will be done in doctors' offices and clinics, more post-operative follow-up outside hospitals. The government also wants to boost preventative care, on which Britain spends too little.

More effective prevention is likely to help constrain demand for treatments to deal with avoidable ailments. But the reform will also achieve more direct savings as activity shifts to cheaper facilities. The evidence of the past few years, when money has been poured into hospitals, has shown how costly and inefficient they are, says Nick Bosanquet, professor of health policy at Imperial College, London.

The reform is sound and long overdue, though arguably it lacks ambition. To shift only 5% of the hospital budget over a decade looks more tactical than strategic. But the real doubts are not about the end but about the means.

The government is clear that its new strategy will require further changes to the way medical care is purchased in the NHS internal market. At present, the focus of commissioning is on hospitals, which are increasingly paid set fees for treatments based on average costs across the acute-care sector.

This new payments system is intended to encourage efficiency savings by hospitals, which will continue to face intense cost pressures in 2006-07, according to the King's Fund, a health-policy think-tank. But if a lot more is to be done outside hospitals, primary-care providers must be able

to compete more readily. The government wants tariffs, in time, to reflect the most cost-effective forms of treatment, rather than the average across hospitals. That would help to move services into the community if that proved cheaper.

Who should provide this expanding care outside hospitals? At present, private GP practices dominate the primary sector, but they have no automatic right to it. Family doctors may be popular, but their opening hours are not. People are also fed up with struggling to make appointments.

The government is starting to challenge the grip of the small-business GP model in areas where there are relatively few family doctors. In Derbyshire, UnitedHealth Europe, a subsidiary of an American firm, looks set to win contracts to provide two GP practices. Hospitals are also keen on offering community services within primary care, according to John Appleby of the King's Fund. Ms Hewitt says she will consider such expansion plans on a case-by-case basis. Although there are risks that vertical integration might stymie competition, it is not clear why hospitals should be prevented from providing community services if they can do this more cheaply.

This highlights the central flaw in the government's strategy. “There is no proper policy on competition and no system for regulating it,” says William Moyes, head of Monitor, which regulates the foundation-trust sector of hospitals that have greater freedoms. He would like Monitor's remit to be extended to oversee competition and performance across the NHS.

Whether or not Monitor's role is expanded, Mr Moyes has a point. There is a hole in the government's plan. If the realm of the marketplace is to be extended in the health service, it will require a new regulator to ensure fair competition and enforce financial discipline.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The gay economy

Village people

Feb 2nd 2006 | MANCHESTER
From The Economist print edition

Britain's most celebrated gay district is less successful, and less gay, than it was

IN THE 1980s, Manchester's gay haunts were sordid, dingy places hidden from the street by frosted glass. These days, they are shiny and brazen. In Canal Street, rainbow flags festoon the many pubs and restaurants that have been carved out of old cotton warehouses. Every August, local gays and lesbians flaunt their sexuality in a pride march. Not that anybody needs to be convinced of their worth. Far from being embarrassed by its “gay village”, the city council touts it as a symbol of enlightenment and urban renewal.

Gays are the philosopher's stone of urban planning—the secret ingredient that turns dereliction into gold. No other group is reckoned to be so good at breathing life into old warehouses and railway arches. Gays convey sophistication, too. Richard Florida, an influential American academic, claims that their mere presence lures investors and jobs, particularly of the high-technology kind. They are, he says, “the canaries of the creative economy”.

Cities with gay districts, such as London, Birmingham and Newcastle, nurture them carefully, supporting pride marches and ensuring the police apply a light touch. Cities that do not have gay districts try to create them. Last September, Liverpool set up a “gay village business association”, chaired by a councillor and a bar owner, to look into the possibility of building a gay quarter to rival Manchester's.

In the city that others are trying to copy, though, the gay economy is not what it was. The Village Business Association has warned of falling revenues. The big pub companies have drifted away, having found it harder to cash in on the pink pound than they expected. In a symbolically significant move, Peter Dalton, whose Manto bar was the first chic gay venue to open in Canal Street, is selling up, claiming that the area's profitability peaked five or six years ago.

Part of the problem is the chronic over-supply that afflicts the drink trade everywhere. Looser licensing rules have produced a profusion of bars and clubs, not just in Canal Street but in Manchester as a whole. Competition means more two-for-one drinks promotions, longer happy hours and less profit. But a bigger problem for the village is that the supply of gay revellers is drying up. “There are more of us pursuing a diminishing crowd,” says Peter Beswick, owner of the Rembrandt Hotel.

Technology is one reason. Cruising and socialising can now take place online, reducing the need for gay venues. “If you wanted to go out and meet other guys ten years ago, you would go to Canal Street. Nowadays all you have to do is log on,” says Mr Dalton.

Another problem for gay bars is that the rest of the city has become more tolerant. Mr Beswick reckons that a gay couple would raise eyebrows in few city-centre bars these days, provided they remained reasonably chaste. Tolerance also means more straight visitors to the gay village.

Female drinkers are more numerous these days—a trend not everybody welcomes. Hen-night parties, in particular, are so loud and destructive that they have been banned from several bars. And, of course, gangs of straight women attract gangs of straight men.

Some bar owners believe that Canal Street ought to return to its origins, distancing itself from the competition by enforcing strict gay-only door policies. But veteran observers reckon that is ruinous idealism. Most think the future is less pink than the past. Mike Pollard, of Taurus, says that his bar is now less marked by the sexual preferences of its customers, and more by an air of tolerance. Indeed: in his magazine rack is a copy of *Maxim*, bible of the heterosexual male.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Gay statistics

Do ask, do tell

Feb 2nd 2006
From The Economist print edition

How many homosexual Britons are there? It depends on who counts

LESBIANISM was never illegal in Britain, mainly, it was long believed, because Queen Victoria thought ladies did not do such things. Male homosexuality, by contrast, was seen as all too widespread, and prosecuted as a serious crime until 1967.

Soon it will be possible to stop guessing how many people are gay, and start counting. Since December 2004 it has been illegal to discriminate at work on the grounds of sexual orientation. Now, to monitor firms' compliance with the ban, the Department of Trade and Industry will start asking about sexual orientation in its workforce surveys.

Academic studies indicate that gay people are more likely to be victims of crime, and to harm themselves or have eating disorders, so a question on orientation may be added to the British Crime Survey. Patients may also be asked about their sexuality when they register with a family doctor. And civil partnerships, which came into force in December 2005, will over time give high-quality data about the number of same-sex couples who are in committed relationships.

A data category can really be said to have arrived, though, when it makes it into the national census. A question about ethnicity was added in 1991 and one about religion in 2001. Government statisticians are hoping to inquire about sexual orientation in the next census in 2011. So in 2012 the number of gays in Britain may finally be known.

Or perhaps not. The favourite rough reckoning is that one person in 20 is homosexual. But when gay cohabiting couples were given an oblique opportunity in the 2001 census, for the first time, to identify themselves as partners, only about 0.25% of the British population—78,522 people—did so, most of them grouped in a few urban areas (see map). This certainly understated the number of gay people, just as the marriage register doesn't contain anything like all heterosexuals.

A difficulty with relying on the census is that it is designed to be filled in by a single person, the “head of household”, who may not check “obvious” answers with other household members (ask a lapsed Catholic with a devout parent). Another is that people might hesitate to answer such a personal question—but similar worries about questions on ethnicity and religion seem to have

been unfounded.

A more philosophical problem is what defines sexual orientation and what exactly the census should ask about: desire, activity or identity? Even the Roman Catholic church recognises that some men desire other men; what is prohibited is acting on this desire. Whatever your orientation, being sexually active depends on having a partner. And survey after survey has shown that some men who buy sex from other men think of themselves as straight—and many are married. Simon Hughes and Mark Oaten—current and retired candidates, respectively, in the race for the Liberal Democrat leadership—are not unique in offering different descriptions of their sexuality, at different times and to different people.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Scottish by-election

Mr Brown's bridge

Feb 2nd 2006 | EDINBURGH
From The Economist print edition

The path to Downing Street is paved with pork

Alamy

Crossings to get cross about

IT WOULD be a shock if a parliamentary by-election on February 9th in the seat of Dunfermline and West Fife produced anything other than a comfortable Labour victory. Yet Gordon Brown, the chancellor of the exchequer and MP for the neighbouring constituency, has been campaigning as though his life depended on it.

At the outset, there seemed little to prevent Catherine Stihler, a Labour MEP and a Brown loyalist, from succeeding the popular Rachel Squire, who died from a brain tumour last month. With a Labour majority of 11,562 in last year's general election, the most interesting question was who would come second, the scandal-struck and leaderless Liberal Democrats, or the Scottish Nationalists, who have made little impact in recent by-elections. So why has Mr Brown been so active?

It's surely not that Labour might lose. More likely, it's the fear that a poor showing on his own patch would give rise to doubts about his ability to pull in the vote—doubts that Mr Brown, in touching distance of realising his ambition to become prime minister, could do without.

Even so, few could understand the reason for his numerous interventions. First he waded in over the issue that troubles Dunfermline voters most—the long traffic jams they must endure after paying the £1 toll to cross the Forth Road Bridge out of Edinburgh. To cut the queues, the local bridge authority had suggested raising the toll to £4 during rush hour. The Scottish Executive said it would decide only after studying reports on the condition of the 41-year-old bridge. Mr Brown, however, quickly announced his delight that the proposals had been abandoned.

Jack McConnell, Scotland's Labour first minister, was miffed to have his hand forced by Mr Brown. Relations between the two have been chilly since a spat over candidate selection years ago.

Worse was to come. On January 23rd, in Dunfermline to help launch the by-election campaign, the “King of Fife”, as he is known locally, announced a package of measures to make voters take notice. Dunfermline stood a good chance of becoming home to a £28m business school with the potential to create 400 jobs in the area, he said. Mr McConnell's Scottish Executive had been keeping the project quiet because it depends on several American business colleges agreeing to teach at it. And Mr Brown backed a proposal for a new bridge over the Forth, a project that could cost £1 billion and is none of his business. Mr McConnell, whose business it in fact is, said it would be “utterly irresponsible” to proceed until more facts are known.

The reason for the chancellor's hyperactivity became apparent the following day when Lexmark, an American maker of printers for computers, said it was closing its factory in the constituency, with the loss of 700 jobs. It was widely assumed that Mr Brown had known it would happen and wanted to soften the blow by promising goodies of his own.

If so, it seems to have misfired. Almost nobody has blamed the government for Lexmark's decision. But Mr Brown's behaviour has stirred up resentments that will not quickly die down.

On January 29th, Mr McConnell hit back, suggesting he would no longer abide by an unwritten protocol that he would keep mum about Westminster decisions affecting Scottish interests if Westminster types kept out of his business. From now on, he said, he would be a lot more outspoken about matters such as heavy-handed treatment of asylum-seekers. The amalgamation of Scottish regiments is another issue that has affronted Scottish opinion.

Meanwhile, there is still a by-election to be won, which now has echoes of a contest in Hull North 40 years ago. Harold Wilson, who was prime minister then, ensured a Labour victory by promising a bridge across the Humber estuary. Unfortunately, the voters of Dunfermline know that in Scotland it is Mr McConnell who controls the pork, not Mr Brown.

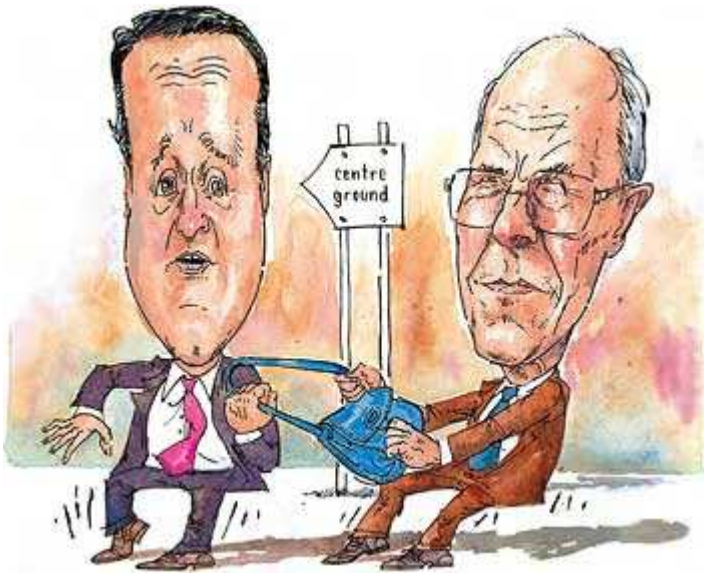
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

With your permission

Feb 2nd 2006
From The Economist print edition

Party leaders who want to contest the centre ground have got to get there first



IF ANYONE thought that David Cameron was finding it all a little too easy, along comes Lord Tebbit to disabuse him. On January 31st, the former Conservative chairman laced up his rhetorical Doc Martens and stuck the boot firmly into the new Conservative leader's rump. Lord Tebbit, never shy of hyperbole, likened Mr Cameron to Pol Pot “intent on purging even the memory of Thatcherism before building a New Modern Compassionate Green Globally Aware Party”.

Some part of Mr Cameron, though probably not his backside, will have been quietly thrilled by Lord Tebbit's attack. He knows that his struggle to change the way voters see his party can only be helped by the occasional public spat with the old guard. In a speech the day before to Demos, a left-leaning think-tank, he talked about the need to resist the “powerful gravitational pull” that “cheerleaders of the right” had exerted on previous leaders. This had resulted in “terrible strategic and tactical mistakes”. The “alternative to fighting for the centre ground”, he argued, “is irrelevance, defeat and failure”.

The ideological differences between Mr Cameron and Lord Tebbit are actually rather less than they appear. Indeed, the main purpose of Mr Cameron's speech was to create a “narrative” to convince troubled Tories that he is as much the heir to Margaret Thatcher as he is to Tony Blair. Mr Cameron paid tribute to Mr Blair's brilliant understanding of what voters wanted—embracing the Thatcher notion of market-driven economic efficiency and synthesising it with a traditional Labour concern for social justice. However, he criticised the prime minister for having eroded the former

without having made much progress with the latter, the blame spread between Mr Blair's penchant for quick fixes and Gordon Brown's for bureaucratic centralism.

The real argument between Mr Cameron and Lord Tebbit is over strategy. Lord Tebbit (along with other Thatcherite diehards) believes it is possible for the Conservatives to win an election by stirring up the Tory base. He reckons that there are 4m “disgruntled Tory abstainers” who can be wooed back with vigorously right-wing policies. Mr Cameron believes that is precisely the way to repel the groups the Tories must appeal to if they are to win—young, middle-class professionals and women.

All the available polling data support Mr Cameron's analysis rather than Lord Tebbit's. Furthermore, Lord Tebbit greatly overestimates the ability of any opposition to make the political weather. Unless they are seen to be disastrously incompetent or overwhelmed by crisis, governments have considerable power to define what the centre ground is, particularly if they have been in office for some time. Under long-lived governments, society itself also changes. Serious opposition parties adapt. It is only when they regain power that the business of re-shaping the centre ground in their own image can begin.

Just as Mr Blair understood this in the mid-1990s, so Mr Cameron understands it today. Mr Blair and Mr Cameron would both echo Disraeli's advice, after years of electoral failure, on the need to shed those qualities which had “become in time obsolete, inconvenient, and by the dextrous misrepresentation of our opponents, even odious”.

A large part of Mr Cameron's party knows in its head that this is true, which is why they voted for him. They may not have realised just how far and how fast their new leader would take them towards the centre ground, but they had a pretty good idea of his direction of travel. As Labour found after 1994 and the Tories after 1945, the hunger for power eventually overcomes the sentimental attachment to outdated ideological arguments.

For these reasons, Mr Cameron is quite likely to persuade his followers to go where in their hearts they would rather not. It is less clear whether Sir Menzies “Ming” Campbell, the favourite to win the accident-prone Liberal Democrat leadership contest, will be similarly successful.

Sir Ming's chances of becoming leader have been greatly improved by the initial failure of his main rival, Simon Hughes, to tell the truth about his sexuality. The third contender, Chris Huhne, is making an unexpectedly strong challenge and could benefit from the second preferences of Mr Hughes's supporters if their man comes last. But Sir Ming cuts a reassuring figure to party members shaken by recent events.

A question of consent

Sir Ming is as sure that there is no politically attractive space much to the left of Labour as Mr Cameron is that there is none much to the right. The manifesto he published this week is a signal of intent that the Liberal Democrats too will be competing for their bit of the centre ground. While making all the right Lib Dem noises about local accountability, civil liberties, the environment and international law, it includes few concessions to the party's mainly leftish activists. Bravely, Sir Ming praises the role of the private and independent sector in delivering public services, while explicitly ruling out higher overall taxes and increased levels of public spending.

And if Sir Ming wins, the tensions are only likely to increase. Referring obliquely to Charles Kennedy's rule by fudge, Sir Ming states that “unity must not come at the price of clarity”. Unlike Mr Cameron in his efforts to claim the centre ground, he can rely neither on his activists' yearning for office (they're Lib Dems, after all) nor on a real mandate for change if he is seen as the default

choice after Mr Hughes's self-destruction.

However much political leaders are persuaded they must fight for the centre ground, they can do so effectively only with the consent of their parties. Sir Ming hopes for it, but may be denied it. Despite the best efforts of Lord Tebbit, Mr Cameron stands a good chance of getting it. As for Mr Blair, he once had it, but is now in danger of losing it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Steel

Age of giants

Feb 2nd 2006
From The Economist print edition

Reuters

Mittal Steel's hostile bid for Arcelor has upended the steel industry

LAKSHMI MITTAL and Guy Dollé, the bosses of Mittal Steel and Arcelor—the world's two biggest steel firms—have long agreed on one thing: the global steel industry will soon come to be dominated by a handful of giant companies. The problem is that Mr Dollé assumed that Arcelor would be one of those giants. Now Mittal Steel has launched an audacious and hostile bid to swallow its largest rival, and Mr Dollé is fighting like fury to preserve his firm's independence.

The background to the takeover battle is a long-term increase in demand, which means that steel—once regarded as a sick industry, nursed along by governments for a mixture of social and strategic reasons—is once again a profitable business. Mr Mittal has built his company by consolidating a notoriously fragmented industry. Over the past two decades, he has been busy gobbling up steel assets everywhere from Mexico to Algeria to Kazakhstan. That propelled Mittal Steel from obscurity to the top of the world steel league table. As Mr Mittal usually went after underperforming assets in privatisations, or arranged friendly takeovers, he was often applauded as a useful outsider invigorating a decaying industry.

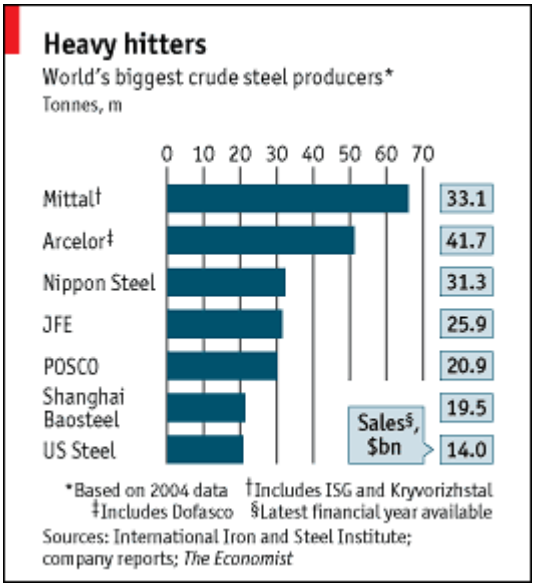
Alas, those good-natured days are over. Mr Mittal's hostile $23 billion takeover bid for Arcelor has been greeted with hostility in much of Europe (see article). Mr Dollé is fighting with any weapon that comes to hand. He has raised questions about Mittal's business model, its safety record and its management. And although insisting that the deal will be decided by shareholders, not politicians, he has also taken care to portray Arcelor as central to Europe's economic health.

The offer, a quarter in cash and three-quarters in Mittal shares, values Arcelor at about a quarter above its pre-bid share price (which, as Mr Mittal likes to point out, was already around its record high). The combined firm would command a 10% share of the global market—more than three times that of its nearest rivals. Arcelor is strongest in western Europe and high-value steel products, while Mittal is strongest outside the EU and in lower grades of steel. Neither is big in China, where production shot up a staggering 77m tonnes last year, but Mr Mittal reckons “with the combined force, we will be able to accelerate our presence in Asia.”

Whether the deal succeeds or not may take months to become clear. Arcelor's board immediately rejected the offer. And Mr Dollé has had some success in stoking the political reaction in Europe. But Mr Mittal is confident. After a meeting with French officials, he insisted that “they have not shut the door, in fact they are looking to open a window.” He roundly rejected the idea that his firm lacks Arcelor's “European” values: “We are European,” he insists, pointing to Mittal Steel's London headquarters and Rotterdam tax registration. He has offered to move the firm's head office to Luxembourg. He also vows that there will be no job losses at Arcelor “as a result of this merger”. He thinks the deal can be finalised by June.

Arcelor may try some sort of “poison pill” to ward off Mittal. One option is a tie-up with another big steel firm (Mr Dollé was due to meet the boss of Japan's Nippon Steel this week), to ward off this unwelcome advance. If Arcelor tries some such manoeuvre, Mr Mittal might sweeten his offer in weeks to come.

Mr Dollé is also trying to make corporate governance an issue, denouncing his rival's plans to retain family control over the combined firm. This looks to be the biggest chink in Mr Mittal's armour. When pressed about the wisdom of installing his 30-year-old son as president and chief financial officer, the steelman appeared to jib. His son Aditya “earned” his position, Mr Mittal insisted, and is “a genius”. Perhaps. But the appearance of nepotism will not help his cause.



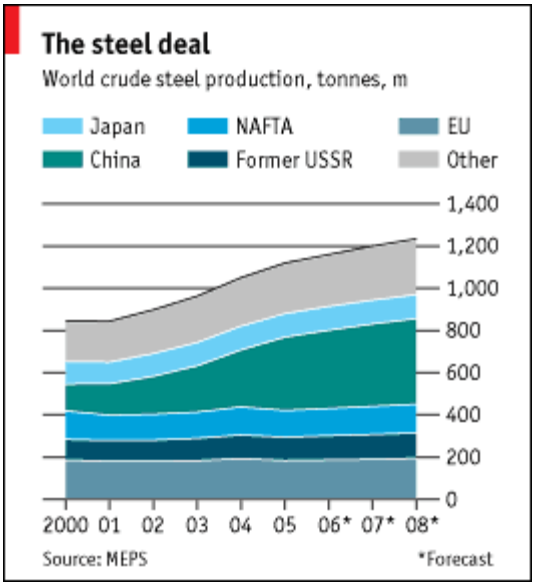
Whatever happens with this particular deal, the trend towards global consolidation now seems unstoppable. Roger Agnelli, boss of CVRD, a Brazilian firm that is the world's biggest supplier of iron ore, declares that steel will now become a “game of giants”. “Everybody is now in play,” says Dick McLaughlin of Hatch, an industry consultancy. U.S. Steel, POSCO of South Korea, Germany's ThyssenKrupp and a dozen firms behind them on the league table, which would previously not have been targets, may now be vulnerable. The firms likely to join Mittal Steel as global consolidators will come, argues Mr McLaughlin, from Russia, Brazil and possibly even China.

China's rise as a steel superpower and its potential to swamp global markets has certainly helped speed consolidation. At the end of last year, for example, Arcelor and ThyssenKrupp were locked in a heated race to buy Canada's Dofasco. In the end Arcelor won—but Mr Mittal has promised to yield the prize to Thyssen if his takeover prevails.

That bidding war points to another possible motivation for Mittal Steel's new takeover bid, aside from a genuine desire to create a global steel powerhouse: a design to get rid of his chief rival predator. After defeating Arcelor

in a recent auction for Ukrainian steel assets, Mr Mittal suggested that the bidding contest had sent the final price up by some $2 billion. Mr Mittal also hopes that a new, larger group may be able to set a lead for the rest of the industry—sending signals about when to moderate production, and so smooth the peaks and troughs in demand that have bedevilled the steel business.

In the end, regardless of whether Mittal or Arcelor wins, the coming battle royal is reason for optimism about steel. This industry, once considered a ward of the state, is now increasingly subject to market forces. So does that mean steel is no longer special or strategic? Mr Mittal says: “I see steel as a normal business.” So far that has been a great formula for success.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

European takeovers

Powerless patriots

Feb 2nd 2006 | PARIS
From The Economist print edition

AFP

Breton prepares to wrap himself in the flag

European politicians cannot do much to stop Mittal Steel's bid for Arcelor

DOMINIQUE DE VILLEPIN, the French prime minister, remained conspicuously silent in the first days after his government was surprised by the news of Mittal Steel's hostile bid for Arcelor, a European steelmaker, with almost 30,000 employees in France. On January 31st he broke his silence in a televised address with a call to arms. “Economic patriotism is the mobilisation of all the participants, of all those concerned, the shareholders but also the company bosses,” he said, urging French and other European chief executives to be better organised to resist attacks by foreign companies.

Thanks to France's increasingly protectionist mood, corporate takeovers are a sensitive topic in Europe. Last week Charlie McCreevy, the internal market commissioner of the European Union, sent Thierry Breton, France's finance minister, a letter demanding justification for provisions in new legislation that gives the government the right to veto or impose conditions on takeovers in 11 industries. If he is not happy with Mr Breton's reply, due before the end of this month, the commissioner will take legal action.

The Brussels reprimand might explain the initially subdued reaction to Mittal's bid by French politicians. With the exception of Mr Breton, government ministers are, reportedly, under gagging orders from Mr de Villepin who wants to avoid the embarrassment of another Danone affair. Last July French politicians of all political persuasions rushed to defend Danone, a French food firm, against a rumoured takeover bid by PepsiCo, a big American food firm. The Americans never made an offer, but France's shaky reputation as a welcoming place for foreign investment suffered another blow.

Mr Breton is at pains to argue that he is not opposed to hostile takeovers, he is not a protectionist and he is certainly not anti-Indian. The finance minister says that his main complaint is Mr Mittal's lack of respect for business etiquette. As a former chief executive of France Telecom and Thomson, two blue-chip French companies, he says, he is familiar with the rules of international business. “I have done many deals in my life, but I have never seen such lack of preparation for an operation of such size,” says Mr Breton. He thinks there is no industrial point to the merged company. The bidder just thought that “big plus big makes very big”.

The French government clearly considers Arcelor one of the country's corporate jewels, but it has very little standing in the matter—it is neither a shareholder nor regulator of Arcelor. The company, created in 2002 after the merger of Spain's Aceralia, Luxembourg's Arbed and France's Usinor, is incorporated in Luxembourg. It has employees in Spain, Germany, Luxembourg and the Americas, as well as France. As the world's biggest steel company in annual sales and the second-biggest by volume, it is—together with Sanofi-Aventis, a Franco-German pharmaceutical firm, and the European Aeronautic Defence and Space Company—one of the few pan-European corporate success stories.

All the French government can do to try to make the bid fail is to influence other stakeholders and shareholders. Jean-Claude Juncker, the prime minister of Luxembourg, which owns 5.6% of Arcelor shares, has predictably fallen into line with France—declaring that in the next few weeks he will do whatever it takes to make the deal fail. The government of Wallonia, a French-speaking region of Belgium that owns 3.2% of Arcelor, has made similar noises. Union leaders have begun to fret about workers' social protection under the Mittal regime and possible job cuts.

But the only real legal obstacle to a deal could be intervention from the competition watchdog in Brussels. Yet competition lawyers say almost unanimously that the merged company would not pose an antitrust problem. The geographic presence of the two companies is complimentary: Arcelor is strong in Europe; Mittal is big in America. Together, they would control only around 10% of the world market for steel.

While the commission claims exclusive competence in competition matters, the French government, or any other government involved, could block the deal on non-competition grounds. According to EU rules member states can stop a takeover if it threatens the plurality of the media, public security or the country's financial system, or if it involves dirty money. But there is precious little sign of such a threat from a big steel merger.

Could the French government use the much-criticised decree on protected industrial sectors against the bid? Steel is not on the list of sectors. They are all related to the defence industry, with the exception of gambling. But Mr Breton may be hoping to raise such a squawk that Mittal chooses to back off. The French finance minister argues that a hostile government and hostile stakeholders can ultimately scupper a deal—citing the example of the bid by CNOOC, a Chinese firm, for Unocal, an American oil company; an offer that was ultimately withdrawn by CNOOC itself, in the face of a ferocious political backlash in the United States.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

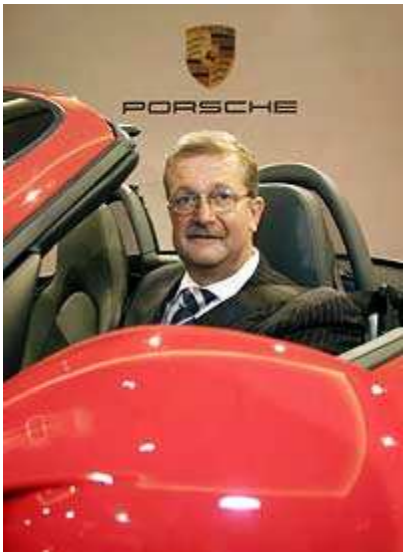
German companies

My way or the highway

Feb 2nd 2006 | FRANKFURT
From The Economist print edition

German companies are getting more confident about doing things their way

AFP



Wiedeking, firmly in the driver's seat

WALL STREET traders and investment bankers have always been fond of Porsches. But the admiration is not mutual. Wendelin Wiedeking, chief executive of Porsche, likes to criticise "predatory" financial investors and the short-termism of the capital markets. "Customers first, then the workforce, then shareholders," has been his proud mantra.

Porsche's boss can get away with some anti-capitalist posturing because—ironically enough—he runs arguably the most profitable car company in the world. He has produced rising profits through the past decade, and Porsche's voting shares are safely in family hands. With its unusual ownership structure, Porsche can afford to report only semi-annually, stay aloof from German share indices, issue bonds without having to pay for a credit rating, and refuse to itemise what it pays top executives.

Mr Wiedeking is particularly keen to denounce the logic of the financial markets at the moment, because Porsche's purchase of 18.5% of Volkswagen is under fire. VW, Europe's biggest car producer, is still struggling to cut costs. Part of the rationale for the purchase, according to Mr Wiedeking, was to secure Porsche's supply chain by preventing VW's break-up by investors. Speaking to adoring shareholders at Porsche's recent AGM, he challenged the idea that capital markets know better how to develop businesses than long-term owners and their appointed managers. "Such a model assumes that capital markets have an information advantage and that their goal—to optimise returns by whatever means—is absolute," he said.

Porsche's wariness of Anglo-Saxon capitalism—and its defence of a distinctive Rhineland business model—is not unusual in Germany. Bertelsmann, one of the world's biggest media companies, has also enjoyed the luxury of family ownership. It is regarded as one of the most benign employers in Germany, which has not seemed to affect its long-term profitability. Thomas Middelhoff, its chief executive until 2002, had wanted to take Bertelsmann public, but Reinhard Mohn and his family, the dominant shareholders, have always been unenthusiastic. Now they may have no choice. Groupe Bruxelles Lambert (GBL), which took a 25.1% share in Bertelsmann in 2001 as part of a share swap when Bertelsmann bought RTL, has a right from May 1st to sell the stake through an initial public offering (IPO). Last week GBL said it had decided to ask for a Bertelsmann flotation.

That may not happen until next year, and there is always a chance that GBL will accept a direct offer from Bertelsmann. But Bertelsmann is preparing itself for the international capital markets. It has bonds and preference shares outstanding, and a credit rating—unlike Porsche. Taking 25% of the company public is not likely to shake it up that much, nor to be of much benefit, but bankers

and investment analysts are salivating at the prospect of the first media company in the DAX share index.

Porsche and Bertelsmann are exceptional companies that have renewed themselves without direct pressure from the capital markets. Other big German companies are making the painful transition from the dependency on banks that is traditional in Germany, to a new reliance on debt and equity investors. For some that has meant the brutal discipline of private-equity funds. The risk is that the company becomes overburdened with debt, which it can pay off only through asset sales. Hence the reservations in Germany about “locusts”, investors who are accused of stripping companies bare and then moving on.

Deutsche Börse, the German stock exchange operator, VW, and Commerzbank came under pressure last year from small groups of activist foreign investors. That drove up the share price of both but threatened their long-term strategy. These experiences have reinforced the inclination to look for “German” solutions.

This tendency may be strengthened by the grand opening on February 3rd of a new European School of Management and Technology (ESMT), based in Berlin and backed by 25 leading German companies and associations. The school will sing the virtues of long-term value creation and building companies, rather than the shorter-term dictates of shareholder value, says Derek Abell, ESMT's founding president. Co-determination between management and unions—with its built-in checks and balances—is an advantage for German companies that want to plan for the long term, he argues. Porsche-driving financiers may disagree.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Indian pharmaceuticals

Good chemistry

Feb 2nd 2006 | DELHI
From The Economist print edition

Mere copycats no longer, Indian firms are flaunting their research skills

Imagestate

DILIP SHAH, secretary-general of the Indian Pharmaceutical Alliance (IPA), a group of Indian drugmakers, is very cross with Hank McKinnell, boss of Pfizer, a global pharmaceuticals giant. Late last year Pfizer defeated Ranbaxy, an IPA member, in an American patent suit over Lipitor, its hugely successful anti-cholesterol drug. “This should be a message for companies in India,” Mr McKinnell said, adding that “they should not steal others' innovations, but they should create technology for themselves.”

In January Mr Shah wrote to India's foreign ministry, complaining that this singling out of Indian companies was “tantamount to racial discrimination”. Ranbaxy had followed a legal procedure routinely used by makers of generic versions of patented drugs. Indian firms, skilled at “re-engineering” others' formulations, have done well in this market, largely because, as Mr McKinnell acknowledged, they have “important scientific capabilities”. They are now deploying them to discover drugs of their own.

At Ranbaxy itself, Pradip Bhatnagar, who heads a unit working on developing proprietary drugs, has some 300 people, including 120 chemists and 120 biologists, working on ten research programmes. At Dr Reddy's, an Indian rival, G. V. Prasad, the chief executive, says it hopes to bring its first proprietary drug—a diabetes medicine—to market in 2010.

India's strength in this area, as in information technology (IT), is its talent pool. Mahesh Sawant, of Frost & Sullivan, a consultancy, says that the country has 122,000 chemists and chemical engineers graduating each year. India's chemists are, by global standards, cheap. Goldman Sachs, an investment bank, estimates that India's overall research-and-development costs are one-eighth of western levels.

Even so, no Indian company yet has the clout to become a big drug innovator. It is a hit-and-miss business with far more misses than hits. The cost of developing a new drug to be marketed worldwide is usually put at about $1 billion. In 2005 Ranbaxy's total global sales were $1.2 billion. As a comparison, Pfizer's sales of Lipitor alone were worth $12.2 billion.

Many analysts, however, see a big opportunity for India as a place for the outsourcing of drug discovery. Frost & Sullivan reckons that in 2004 this market was worth $1.2 billion, with a further $1.6 billion spent on clinical development (testing on patients and so on).

The big drugs firms have for years been outsourcing some or all of their clinical-development work to specialised research firms, such as Quintiles. Now, facing a shortage of chemists, mounting costs and shorter product life-cycles, they are sending more and more work to cheaper countries. And whenever they do so, says Davinder Brar, chairman of GVKBIO, an Indian drug-research outfit, they look at India and China. Besides its chemists, India's attractions include its IT prowess and, since it passed a new patent law last year, the prospect of better protection of intellectual property.

Many of the big pharmaceutical firms and research firms outsource their work to in-house "captive" Indian operations; but, as in IT, "third-party" Indian firms have also sprung up. Mr Brar, Ranbaxy's chief executive until 2004, expects GVKBIO to become the largest R&D centre in India. It already employs nearly 1,000 people and will be adding 150 scientists for one contract with Wyeth, a big American firm. Its customers include another six big western drugs companies, a few Japanese clients and a score of small and medium-sized biotech firms.

Mr Brar expects salaries and costs to rise in India, too. In another parallel with the IT industry, India's biggest pharmaceutical asset—its wealth of talent—may also prove to be its biggest challenge. Already, drugs companies complain about the time and resources devoted to turning academic chemists with the best qualifications into globally competitive research scientists.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Packaged foods

Time to get Krafty

Feb 2nd 2006 | CHICAGO
From The Economist print edition

This week's job cuts will help Kraft, but it really needs bolder innovation

WHEN all your costs are rising, and consumers are losing interest in your products, it is time for drastic measures. So Kraft Foods, which was already engaged in a round of cost cutting, unveiled another package of redundancies and plant closings on January 30th.

More cuts certainly must be part of the solution for Kraft. The company's margins have fallen sharply as costs have risen for everything from the ingredients it uses to the fuel it needs for processing, packaging and distributing its foods. Since it cannot do much about those, Kraft will instead cut labour and capital costs. The company will shed another 8,000 jobs by 2008, on top of the 5,500 that it is already in the middle of cutting. That 13% workforce reduction will coincide with the closure of 39 plants—twice the number that Kraft originally planned to shut.

In total, Kraft's restructuring will now cost $3.7 billion, three times as much as the modest version it first planned. But its managers hope to achieve long-term savings of $1.15 billion a year. Investors, looking ahead as ever, were pleased by the news. Kraft's shares rallied, even as its chief executive, Roger Deromedi, said that he expected input costs would remain high in 2006.

Kraft must also find a way, however, to pass on higher costs to its customers. Many of its branded goods, such as packaged meats and cheese products, are under pressure from own-label brands, produced by big supermarkets. Anybody can pre-slice cheese and encase it in plastic. So Kraft, as everyone knows and Mr Deromedi concedes, will have to innovate. But should the company trot out lots of new food lines, or keep improving its existing ones to differentiate them a bit?

An established packaged-foods conglomerate such as Kraft tends to be better at incremental improvement than at risky investments in new brands. There is a danger, however, that relying on gradual progress will not be enough to persuade consumers to pay more for Kraft's products, when a similar-looking generic rival is flashing its seductive price tag on the same shelf. “Pricing is transparent, value is opaque”, says Dipak Jain, a marketing professor and the dean of Northwestern University's Kellogg business school. By contrast, new products, such as organic or ethnic food, offer the prospect of better growth and margins—but would require Kraft to take bigger gambles.

So far, Kraft has been combining the two strategies, but at a modest pace. For example, it made its macaroni and cheese—an American family staple—a little healthier by rolling out a whole-grain version; but it also launched a new “South Beach Diet” line of healthier foods. Kraft now needs to be bolder on both fronts. When you are under pressure, it is no time for Jell-O knees.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Luxury goods

Leather and canvas

Feb 2nd 2006 | PARIS
From The Economist print edition

The art of marketing

Louis Vuitton

Sex spells, too

IS A Louis Vuitton handbag a work of art? Bernard Arnault, boss of Moët Hennessy Louis Vuitton (LVMH) the world's biggest luxury-goods group, would like you to think so.

LVMH recently opened an art gallery on the seventh floor of its new flagship store on the Avenue des Champs Elysées. The inaugural exhibition features work by Vanessa Beecroft, a fashionable American artist. One of the exhibits involves large photographs of naked black and white women forming the Louis Vuitton letters. Another is a video of a *tableau vivant* of almost naked women posing like handbags on the shelves of the shop. Ms Beecroft insists that: “I am not being used to sell bags, but to clean up the conscience of a sophisticated brand that allows intellectual and revolutionary content to emerge.”

Yves Carcelle, chief executive of Louis Vuitton, also plays down the commercial aspects of the project. He says the idea is to “make contemporary art more accessible for many people.” But LVMH clearly also sees a marketing benefit to be gained from exhibiting serious contemporary art in the world's biggest Vuitton shop and its new “Espace Culturel Louis Vuitton”.

For the hordes of Japanese, Chinese and Russian tourists who snap up Louis Vuitton handbags, the brand's aura of quality and exclusivity may still be the big draw. But some marketing experts reckon that Europeans and Americans may now need a little extra lure—hence the attempt to link the brand to high art. “They want an additional experience, so companies hire celebrities as spokespeople for their brands, employ trendy artists to rejuvenate their design or invest in contemporary art,” says Claudia D'Arpizio, a luxury-goods expert at Bain, a consultancy, in Rome.

Louis Vuitton is the LVMH group's most successful brand and now accounts for about one-quarter of its €14 billion ($17 billion) annual sales and about one-third of its profits. Mr Arnault has not put a foot wrong with Louis Vuitton, since he took control of LVMH 15 years ago after one of the roughest takeover battles in French corporate history. He sacked ineffective managers and pushed creative directors to revitalise the brand. In 1998 he hired Marc Jacobs, an American designer mainly known for his grungy collections. Adapting quickly to Vuitton's more subdued style, he tripled the brand's offering by adding fashion to the traditional leather goods. In 2004 the company opened a giant store on New York's Fifth Avenue to celebrate its 150th anniversary.

The new Paris shop, which opened late last year, is already a big hit. Some 3,000-5,000 visitors

come every day, the large majority of whom are tourists. It is one of the most-visited landmarks in Paris—right behind the Eiffel Tower and Notre Dame cathedral. And it is making money when many flagship shops of luxury-goods firms are kept afloat only to gratify the egos of their owners, says Antoine Colonna, a luxury-goods analyst at Merrill Lynch.

The art gallery may increase the flow of visitors to the Paris shop. And the link between art and luxury-goods companies is likely only to strengthen. LVMH and its main rivals—Richemont, Gucci and Prada—are spending big chunks of their budget for corporate image building on cultural philanthropy. As cash-strapped museums in Europe gradually shed their remaining inhibitions about corporate sponsorship, luxury-goods firms have become financiers of blockbuster exhibitions such as the recent “Klimt, Schiele, Moser, Kokoschka” exhibition at the Grand Palais, which was financed by LVMH, and the Dada show at the Centre Pompidou, sponsored by Pinault-Printemps-Redoute (PPR), the Gucci group's holding company. This month a big LVMH-backed retrospective of Pierre Bonnard's work will open in Paris.

Louis Vuitton has worked with individual artists in the past. Robert Wilson, an American set designer, and Switzerland's Ugo Rondinone created window displays for the shop. Mr Jacobs collaborated with trendy artists like Stephen Sprouse, Julie Verhoeven and Takashi Murakami to spruce up the company's traditional pattern and logo. A handbag designed by Mr Murakami became one of the brand's all-time bestsellers.

But even Louis Vuitton is treading carefully. The company has no plans to exhibit contemporary art in stores outside Paris. And at least one of the works in the Paris store will probably remain on permanent display: “Your Loss of Senses”, by Olafur Eliasson is a pitch-dark, “sensory-deprivation” lift connecting the shop and the top floor. The lift is meant to serve as a contrasting experience to the abundance in the shop. This is probably as subversive as a work of art on display at Louis Vuitton will ever get.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

China's uneasy billionaire

Feb 2nd 2006
From The Economist print edition

Sam Ahmed

Wong Kwong Yu is a billionaire, but he still has something to prove

THE gods clearly smile on Shantou. This once poor district in southern China is the birthplace not just of Asia's richest man, Li Ka-shing, a Hong Kong tycoon, but also more recently of one of mainland China's richest men, Wong Kwong Yu, founder of Gome, an electrical-appliance retailer. According to a Chinese “rich list” compiled by Rupert Hoogewerf, a British journalist, Mr Wong is now worth $1.7 billion—enough to put him at the top of the list for two years running. This is still far short of Mr Li's $13 billion; but then Mr Wong, at just 36, is younger and made his fortune in socialist China, not capitalist Hong Kong.

Yet the remarkable nature of his achievement, like the wealth itself, has brought Mr Wong scarce comfort. True, his office is presidential, complete with a stately desk and even a bedroom (he says he often works overnight). With his brother, he owns the skyscraper Eagle Plaza in north Beijing that houses it. He is driven around in a stretch Mercedes too, although only because friends advised it would be handy for meetings on the move. But Mr Wong's personal tastes are frugal. He and his wife and children still live in a commonplace apartment that costs a third of a luxury one. Shyly fiddling with his mobile and lighting another cigarette, he confesses that he cannot play golf, and cut short a holiday in Canada recently because he was bored. He works 13-hour days because “I wouldn't know what else to do,” and to relax just watches television.

Such self-denial and workaholism partly reflect the fact that he built his wealth slowly—like Li Ka-shing, who is known for his cheap shoes and plastic watches. As a boy, Mr Wong recycled bottles

after school to supplement the income of his farming family. At 16, he and his elder brother travelled north to Mongolia to flog cheap watches, before fetching up in Beijing and opening a clothing store—Gome. At 17, with urbanisation, property development and incomes all on the upswing, he switched Gome into home appliances and consumer electronics, and in 1992 he split the business, keeping the stores while his brother, also on the rich list, kept the real estate.

Mr Wong reflects, too, a sensitivity common to many of China's young entrepreneurs faced with a regime still ambivalent about private property and the rapid rise in private wealth. Several former members of Mr Hoogewerf's rich list have since been jailed or forced to flee abroad. Mr Wong says that he is not under threat: “It is transparent where I made my money.” But conspicuous consumption is still to be indulged in cautiously.

However, the main reason for Mr Wong to feel ill at ease is the business itself. At first sight, Gome is a formidable success. With 437 stores in 132 cities and revenues of 24 billion yuan ($3 billion) in 2004, it is the clear market leader in a 500 billion yuan electrical-appliance market, growing at an enviable 12% a year. It has the best brand and product range and is less dependent on a single region than its rivals. Yet Gome's pre-eminence is threatened. Sales of televisions, washing machines and the like are highly fragmented, with the top 16 chains accounting for just 22% of the market. And the competition is catching up. Of the many ideas Mr Wong pioneered in 20 years in retail—including charging high fees for supplier promotions (a full third of Gome's profits)—“everything is now being copied” by rivals, particularly three others with national pretensions, Suning, Yongle and Dazhong.

Mounting competition—Shanghai's Yongle and Beijing's Dazhong recently announced a co-operation pact that could lead to a merger—has sparked a frenzied grab for sites, as the competitors struggle to be the first to establish a China-wide presence, and so gain clout with suppliers. Gome plans a staggering 800 new stores over the next three years to boost sales five-fold to 120 billion yuan by the end of 2008.

Margin call

The short-term cost is severe. In the nine months to September Gome's Hong Kong-listed arm, which holds 267 stores (initially the most profitable ones, while the unlisted parent holds the rest), reported a one-quarter plunge in sales per square metre, reflecting the impact of new stores in less wealthy cities. Meanwhile, price wars and promotions plus soaring rent, salary and utility bills are slicing margins. Gome's gross profit margin is now under 9%, and falling—far short of the 25% of America's Best Buy. With its biggest suppliers such as Haier and TCL struggling to stay profitable in the face of massive oversupply, there is little scope to squeeze them further. Nor will Chinese shoppers readily pay more for free delivery, better guarantees or smarter shops. Despite the comfy sofas, festive red new year lanterns and modern layout of Gome's showcase outlet in north Beijing, low prices are still critical to success. Gome's price tags are made of paper and are designed to accommodate three or four price cuts a day.

Mr Wong is betting that Gome's growing scale will force consolidation and end the price wars. It certainly has a head start and a talented senior team, while its Hong Kong listing is helpful for capital or acquisitions. Gome also wants a foreign partner: on February 2nd Warburg Pincus, an American private equity firm, made a $150m investment, giving it potentially 9.7% of Gome. Mr Wong is also eyeing Best Buy, whose boss he met twice last year. Yet with China now fully open to foreign electrical chains and supermarkets, competition will only heat up. So just in case, Mr Wong is busily working on that quintessentially Chinese escape hatch: property. While his brother flourishes in commercial real estate, Mr Wong has recently become one of Beijing's biggest residential developers. It seems to suit him better. He laments the loss of the days when he was the only retailer that mattered, everything sold and he didn't have to ask favours. The beauty of

property over retailing, he grins, is “that you don't have to deal with so many people.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Japan after livedoor

From hero to zero

Feb 2nd 2006 | TOKYO
From The Economist print edition

AP

The framework for supervising business in Japan is alarmingly flimsy. Politicians seem reluctant to change it

Get article background

WHO is a fan of Horiemon now? A hero of the internet age, who challenged fusty ways of doing business, Takafumi Horie now sits in a Tokyo jail. A couple of weeks after prosecutors raided the headquarters in Roppongi Hills of the upstart empire that Mr Horie assembled in a fit of acquisitions, livedoor lies in ruins, its stockmarket capitalisation now below the group's net asset value.

Nemesis takes just a year: last February, livedoor launched a shocking hostile bid, Japan's first ever, for an august broadcasting group, Fujisankei Communications, fought off only when a white knight was found. This week, by contrast, Fuji said that it might rescue livedoor by taking it over. When Mr Horie was riding high, the media—Fuji TV's reporters honourably excepted—delighted in building him up still further, conferring on him his nickname derived from a cartoon character with boundless optimism. The media are now having an equally high time of it pushing him back down. What has not changed is that Horiemon is still by far the biggest story in town.

Mr Horie was arrested on January 23rd, and has been held incommunicado since, while a new management team has taken over livedoor. Other former executives have also been arrested. Hideaki Noguchi, a friend and former livedoor executive, has been found dead in a hotel, an apparent suicide. No charges have yet been laid in the livedoor case, and it is still far from clear exactly what Mr Horie and other executives, notably Ryoji Miyauchi, the chief financial officer, are

alleged to have done.

Certainly, without a hint of independent inquiry, the Japanese press recycles each day what it has been spoon-fed, off the record, by the Tokyo district prosecutor's office. Such leaks, seeking to build a case in public before charges are even filed, are a part of the problem, says Atsushi Nagano, a lawyer at Nishimura & Partners in Tokyo. They are, he says, why the public is still confused about what the livedoor scandal is all about.

Livedoor is said to have manipulated the market in 2004, when a subsidiary announced that it was pursuing a publishing company it already controlled. It is also said to have manipulated its accounts, moving money around the group when it saw fit, including into Swiss bank accounts under fictitious company names. Opaque investment partnerships—not unlike those used by Enron in America—were supposedly used to acquire stakes. Meanwhile, share splits artificially inflated the price of livedoor shares, which were invariably used as the currency for acquisitions.

The firm may well have been shot through with financial crookery. The trouble is that some of what the prosecutors allege through the press is vague, and much of the rest not necessarily illegal in Japan, even if it clearly is elsewhere. For instance, there are no accounting rules for Enron-style investment partnerships. At the least, questions ought to have been raised much earlier about livedoor's activities. After all, much of the freewheeling in which Mr Horie engaged—share splits, the building up of stakes in acquisition targets during off-market trading and the like—was there for all to see, yet regulators at the time applied little scrutiny and took little action.

That is why the prosecutors' actions now—more than $6 billion in stockmarket value has been destroyed before a single indictment has been made—come across as extremely harsh, with motivations that are still unclear. Some politicians and analysts wonder whether the prosecutors were put up to it by opposition politicians who were appalled by Mr Horie's decision to stand (unsuccessfully as it turned out) on a reformist ticket supporting the prime minister, Junichiro Koizumi, in last September's elections for the Diet (parliament). Whether or not there was direct encouragement, it is certainly true that many politicians are quietly happy with livedoor's fall from grace.

Though they have 30 days in which to file charges against Mr Horie, prosecutors in Japan rarely make arrests unless they are sure of their case—the verdict, it is said, comes first, and the trial later. So it may yet turn out that investigators have evidence of something more concrete and heinous. Rarely do they move like this in cases of pure securities fraud. It is conceivable that some of the companies livedoor acquired were in the pocket of *yakuza* crime syndicates, for instance, which used them for money-laundering. Conceivable, too, that livedoor was channelling funds to politicians, in which case the story will grow. Both possibilities are raised by informed observers, and both have historical precedents. In the meantime, the abruptness with which the authorities kicked down livedoor—Christopher Wells of White & Case, a law firm, calls them an “Old Testament god” (ie, vengeful)—adds to concerns about shortcomings both in the way business is conducted in Japan, and in the way it is supervised by the authorities.

He did it his way

The livedoor saga has brought these questions to the fore partly by unleashing an emotional debate about where the country is heading. This debate matters, because Japan's economy is now returning to something like normal, after 15 years of post-bubble slump. Companies have sloughed off their debts, and are making record profits (see chart 1). Some of the improvement in the corporate sector came about by cutting staff or wages which, while necessary, precluded the kind of recovery among households that ensures economic momentum. Since last year, however, wages have been rising, while jobs are also on the increase. This week it was announced that for

the first time in 13 years Japan has a job again for everyone who wants one; in December alone, 30,000 jobs were added to the economy, while household spending was up by 3.2%, compared with a year earlier.

That is all good news. But Japan has a demographic predicament: a rapidly declining workforce in relation to a population which itself is set to shrink. This can be addressed, in the long run, only by a permanently higher level of productivity growth. And here lies the significance of the livedoor debate. If what happened at livedoor is somehow symptomatic of a broader misallocation of economic and financial resources—for example, due to regulatory incentives that skew company behaviour—then Japan will lack the economic strength to address its demographic predicament. Still worse would be if the wrong lessons were drawn from livedoor, skewing incentives even further.

At the moment, it is Japan's old corporate establishment that is most likely to draw the wrong conclusions. To the members of the corporate old guard whom Mr Horie so delighted in taunting, the case is clear-cut. Among the members of the *Keidanren*, Japan's big-business association, are plenty of die-hards for whom livedoor represents the excesses of what in Japan is called “market fundamentalism”, for which read the liberalisation of markets and raw-blooded capitalism imported, as opponents see it, under American pressure. Their criticism has a political dimension, too, for this is the style championed in Mr Koizumi's rhetoric. At least until the livedoor scandal, it was the approach he wanted his potential successor to adopt after he steps down in September.

Certainly, livedoor and its fast-moving acquisitive style—an internet portal, it came to own, among many things, a second-hand car dealer and an online share brokerage—could not have come about without the recent liberalisation of Japan's markets. For instance, the “big bang” financial reforms of 1998—actually a rolling programme of deregulation—rendered acquisitions among Japanese firms easier. In the early 1990s nearly half of all listed equities were held by companies in a cosy web of cross-shareholdings. Reforms required such holdings to be valued in company accounts at their market price, encouraging their disposal. Today, cross-shareholdings account for less than a quarter of the market. The changes also encouraged share splits, which, by increasing stockmarket liquidity, make shares relatively easier to buy. And changes to tax rules have since made it easier for domestic companies to pay for acquisitions with shares rather than with cash. (Foreign companies, meeting local political resistance, are still waiting for new rules that will allow them the same treatment.)

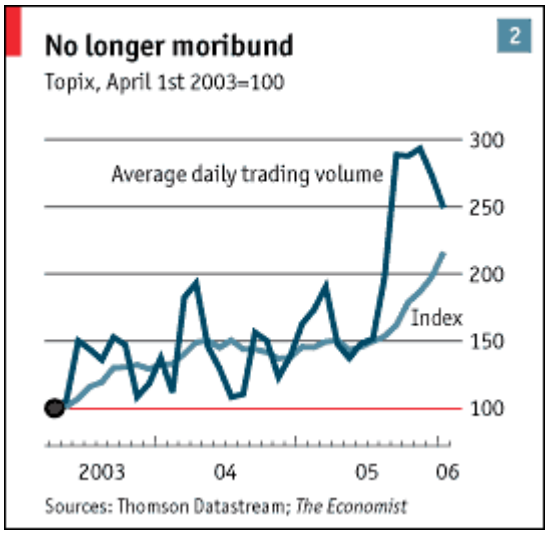
In with the new

Such changes have spawned new breeds of companies, of which the prelapsarian livedoor was neither the first nor the most impressive, even if it was perhaps the most conspicuous. Rakuten and Softbank, which owns a 41.8% controlling stake in Yahoo! Japan, are examples of internet and information-technology ventures for which acquisitions have been important. With hindsight, all now have business models that are markedly more coherent than livedoor's improvisatory approach, which appeared to consist mainly of inflating its share price ever higher. Other outfits, such as the high-profile M&A Consulting Fund, have put their money to work challenging company managers, turning around stricken businesses or helping to merge or dispose of assets. These firms are all part of a trend encouraging a transformation of corporate Japan. The outcome is

greater management focus and attention to shareholder returns. For the past four or so years, mergers and acquisitions in Japan have been growing fast. Last year, according to Thomson Financial, deals more than doubled in value, to $170 billion, easily outpacing the rest of the world. Restructuring has contributed to companies' record profitability, and underpinned a stockmarket that rose by 40% in 2005.

While the old guard plays down the benefits of such “market fundamentalism”, it loudly bewails the risks: the implication is that somehow the old system enshrined higher ethical norms. Really? Old corporate Japan is rife with scandal. Only last year, Seibu, a railway firm and longtime paragon of the elite, was charged with accounting fraud, and its shares were delisted from the Tokyo Stock Exchange (TSE). The difference, says Peter Tasker, a consultant in Tokyo, is that where “Old Japan” used to be concerned about covering up losses, “New Japan” rogues appear set on fabricating gains.

The TSE has now moved quickly to quarantine livedoor, which is listed on the exchange's start-up board called the Mothers Market; trading is limited to just an hour a day, presaging that it may soon be delisted entirely, as Seibu was. But, like the livedoor arrests, this seems to have come too late. The livedoor story underscores the woeful state of corporate governance and market supervision in Japan, and shows that the system is incapable of regulating behaviour at an earlier stage. The establishment has thought for too long that it is enough for Japan to be hidebound, while paying insufficient attention to ensuring that it was rulebound. Livedoor tested the defences, and found them to be weak.



Governance in Japan is marked by a lack of clear disclosure rules. The absence of accounting rules for investment partnerships is one example. When it comes to takeover bids, no clear rules are in place about how and in what ways parties may act in concert to acquire stakes in target companies. Thus, Mr Horie was able to gather a 35% stake in Fuji's radio subsidiary in after-hours trading—and even got a court to bless the action—though an investor is meant to declare once his stake reaches 5%. There is no threshold, as there is in Europe and some of the rest of Asia, above which an acquirer of shares must make a full bid for a target. Nor need a bidder offer the same price to all shareholders. In the case of Fuji, Mr Horie saw the gaps in all these areas, and drove a coach right through them.

A fresh commission

These gaps can be plugged, and some no doubt now will be. There is also the keen expectation among those pushing for change that regulatory bodies will now be beefed up, in particular, the Securities and Exchange Surveillance Commission (SESC), an arm of the Financial Services Agency, the cabinet-level body responsible for financial regulation. The SESC is pitifully staffed, with fewer than 320, compared with 3,800 at America's equivalent, the Securities and Exchange Commission. With Mr Koizumi's commitment to cut the government bureaucracy by 5%, it has been hard for politicians to argue that more staff should be sent to the SESC to identify and stop securities shenanigans. Now, the economy minister, Kaoru Yosano, says that more staff should be a top priority. Though calls to split off the SESC and give it independent clout are likely to face strong opposition from politicians, a debate needs to start on what powers a reformed SESC should have, and how it should be financed. For instance, in America civil fines levied for financial

misdemeanours are ploughed back into enforcement. The Japanese system caters neither for civil fines nor for class-action suits.

More changes will be needed. Regulators must also be ready to act sooner on signs of unsavoury activity. A case in point is livedoor's frequent use of stock splits (it split its shares 30,000-fold). In theory, splitting shares should not lead to a change in a company's valuation. In Japan, however, a paperbound system means that investors must send off for new certificates, and in the several weeks that this takes they have no means to trade. It is not hard, therefore, to take advantage of a temporary artificial shortage of shares after a stock split to ramp up a company's shares, increase the company's stockmarket valuation, and use that to acquire more assets, or borrow more money, or whatever.

Nishimura's Mr Nagano, who as a former senior official at the finance ministry was a key participant in the big-bang reforms, says this was an unintended consequence of them. When the flaw became apparent, he says, the authorities should have stepped straight up and admitted it; for instance, they should have banned any announcements of mergers or acquisitions during the period of artificial scarcity following a stock split. That they did not, Mr Nagano thinks, was perhaps because of Mr Horie's popularity at the time.

Livedoor lessons point not just to a need for thorough overhaul of surveillance and corporate governance. The hardware at the heart of Japan's market capitalism, at the TSE, has also been tried and found to be sorely lacking. On news of the livedoor raid by prosecutors last month, investors, many of them housewives who had taken up day trading during the bull market, dumped shares in a panic. Orders swamped the exchange, forcing it to close early for the first time in its history. The exchange, says a bank head in Tokyo, is a “sclerotic, bureaucratised institution without a strategy, unable to think ahead.” Though the TSE is rushing to upgrade capacity, doubts will remain about its readiness in the face of the more vibrant markets that an economic recovery might be expected to bring.

Whether the livedoor mess leads to swifter improvements in disclosure, surveillance and corporate governance, or whether the opposite conclusion is drawn—that liberalisation should be rolled back—hangs to an extent on the political contest among those keen to take over from Mr Koizumi as prime minister and leader of the ruling Liberal Democratic Party (LDP).

AFP

Horrified by Horie

For the first time since the LDP's landslide win last September, the opposition Democratic Party of Japan has found its voice, attacking Mr Koizumi and his reformist allies for allowing unbridled corporate greed. But the strongest criticism comes from within his own party. In particular, the reputation of the chief architect of the prime minister's reforms, Heizo Takenaka, a former economics professor who has many detractors, is badly dented within the LDP, says Takao Toshikawa, editor of *Insideline*, a political newsletter. Mr Takenaka vigorously championed Mr Horie's bid for parliament, going down to Hiroshima to campaign for him. Until recently, he had been increasingly mentioned as a contender for the premiership, but if he had such hopes, they have now been dashed. What is more, Mr Takenaka now becomes a liability for the presumed front-runner, Shinzo Abe, the chief cabinet secretary, who had been counting on him to provide the domestic-policy expertise that Mr Abe obviously lacks.

There are other areas where reform, broadly defined, is on the defensive in Japan. One has to do with a growing construction scandal, where architects were discovered to have faked earthquake-resistance data for condominiums after the inspection system was deregulated in the late 1990s. Conceivably, this, together with the political effects of the livedoor scandal, could move Japanese policymaking back towards the cosy, more consensual form of politicking from which Mr Koizumi did so much to separate himself.

On the other hand, whatever wrongs Mr Horie is found to have committed at livedoor, some radical changes in public perceptions that he helped bring about are unlikely to revert. The biggest is the concept, recent to Japan, that companies belong to shareholders, not managers. That is not to say a spate of hostile takeovers is imminent. Still, shareholders will increasingly ask managers to listen to them. Even a children's television programme, “Weekly Children News”, describes, in the simplest terms, such things as investments and the benefits of mergers. Given the present harrumphing about livedoor from the old guard, perhaps the programme airs in the wrong slot.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The world economy

Testing all engines

Feb 2nd 2006
From The Economist print edition

Global growth is looking less lopsided than for many years

LARRY SUMMERS, a Treasury secretary under Bill Clinton, once said that “the world economy is flying on one engine” to describe its excessive reliance on American demand. Now growth seems to be becoming more even at last: Europe and Japan are revving up, as are most emerging economies. As a result, if (or when) the American engine stalls, the global aeroplane will not necessarily crash.

For the time being, America's monetary policymakers think that their economy is still running pretty well. This week, as Alan Greenspan handed over the chairmanship of the Federal Reserve to Ben Bernanke, the Fed marked the end of Mr Greenspan's 18-year reign by raising interest rates for the 14th consecutive meeting, to 4.5%. The central bankers also gave Mr Bernanke more flexibility by softening their policy statement: they said that further tightening “may be needed” rather than “is likely to be needed”, as before.

Most analysts expect the Fed to raise rates once or twice more, although the economy slowed sharply in late 2005. Real GDP growth fell to an annual rate of only 1.1% in the fourth quarter, the lowest for three years. Economists were quick to ascribe this disappointing number to special factors, such as Hurricane Katrina and a steep fall in car sales—the consequence of generous incentives that had encouraged buyers to bring purchases forward to the third quarter. The consensus has it that growth will bounce back to an annual rate of over 4% in the first quarter and stay strong thereafter.

This sounds too optimistic. A rebound is indeed likely in this quarter, but the rest of the year could prove disappointing, as a weakening housing market starts to weigh on consumer spending. In December sales of existing homes fell markedly and the stock of unsold homes surged. Economists at Goldman Sachs calculate that, after adjusting for seasonal patterns, the median home price has fallen by almost 4% since October. Experience from Britain and Australia shows that even a soft landing for house prices can cause an acute slowdown in consumer spending.

American consumers have been the main engine not just of their own economy but of the whole world's. If that engine fails, will the global economy nose-dive? A few years ago, the answer would probably have been yes. But the global economy may now be less vulnerable. At the World Economic Forum in Davos last week, Jim O'Neill, the chief economist at Goldman Sachs, argued convincingly that a slowdown in America need not lead to a significant global loss of power.

Start with Japan, where industrial output jumped by an annual rate of 11% in the fourth quarter. Goldman Sachs has raised its GDP growth forecast for that quarter (the official number is due on February 17th) to an annualised 4.2%. That would push year-on-year growth to 3.9%, well ahead of America's 3.1%. The bank predicts average GDP growth in Japan this year of 2.7%. It thinks strong demand within Asia will partly offset an American slowdown.

Japan's labour market is also strengthening. In December the ratio of vacancies to job applicants rose to its highest since 1992 (see chart 1). It is easier to find a job now than at any time since the bubble burst in the early 1990s. Stronger hiring by firms is also pushing up wages after years of decline. Workers are enjoying the biggest rise in bonuses for over a decade.

Shopping again

Higher incomes mean more spending: households spent 3.2% more in December than a year earlier. And according to Richard Jerram, of Macquarie Bank, retail sales rose in 2005 for the first full year since 1996. In other words, Japan's growth is becoming much less dependent on exports. The disappearance of deflation has also reduced real interest rates, giving further support to domestic demand.

Even the euro area is emerging from the doldrums. In Germany in particular, vigorous corporate restructuring has boosted productivity and profits. So far, however, this has been at the expense of jobs and wages, and hence of consumer spending—although with capital expenditure picking up, new hiring is likely to follow. Mr O'Neill suggests that Germany is where Japan was 18 months ago.

The official German job figures for January were disappointing. After falling steadily over the past year, the unemployment rate unexpectedly rose to 11.3% and the total number of jobless rose back above 5m. But the figures are partly distorted by statistical changes and new rules on eligibility for benefits. Evidence from business surveys certainly point to an improving labour market.

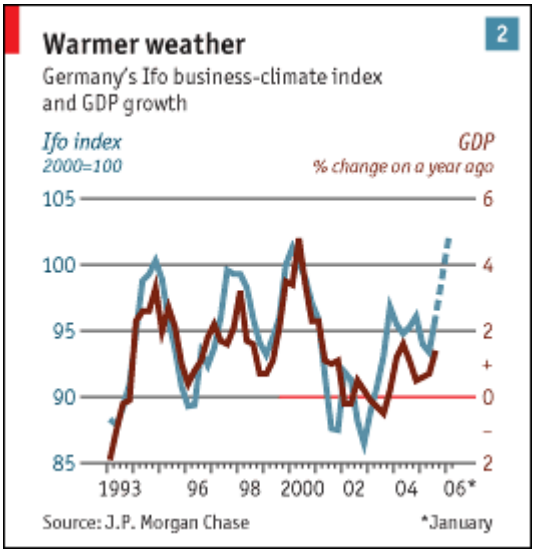
Further bad news this week came in the shape of a 1.5% drop in retail sales in the year to December. That could imply a decline in total consumer spending for a fourth consecutive quarter,

which has never happened in the 45 years since records began. On the other hand, consumer confidence surveys suggest that households are starting to feel chirpier this year.

Life discovered in Europe

The Ifo survey of German business confidence also indicates that the recovery is spreading to consumers. Retailers' confidence in January rose to its highest for five years. The expectations component of the overall survey rose to its highest since November 1994. If the traditional relationship between Ifo's business-confidence index and GDP growth holds (see chart 2), then Germany's economy could grow this year by much more than most economists are forecasting.

For the first time in many years, Germany's domestic demand looks set to contribute more to growth in 2006 than its net exports will. Elsewhere in the euro area, domestic demand has been the main source of growth in any case. According to Morgan Stanley, since 1999 it has supplied 95% of the zone's GDP growth. These economies are therefore more resistant to external shocks than is generally thought.



Although Germany is leading the pack, businesses throughout the euro area are feeling perkier. The European Commission's survey of business sentiment rose healthily in January, to a level that could signal GDP growth of well above the consensus forecast of 2% for this year.

Stronger demand will embolden the monetary hawks in the European Central Bank. The bank left interest rates unchanged at 2.25% on February 2nd, but many economists expect it to raise them in March. UBS thinks rates will reach 3% by September. Might that dampen the recovery? Probably not: in inflation-adjusted terms, rates would still be low.

Alongside stronger domestic demand in Europe and Japan, emerging economies are also tipped to remain robust. These economies are popularly perceived as excessively export-dependent, flooding the world with cheap goods, but doing little to boost demand. Yet calculations by Goldman Sachs show that Brazil, Russia, India and China combined have in recent years contributed more to the world's domestic demand than to its GDP growth. They have chipped in almost as much to global domestic demand as America has.

If this picture endures, a moderate slowdown in America need not halt the expansion in the rest of the world. Europe and Japan together account for a bigger slice of global GDP than the United States, so faster growth there will help to keep the global economy flying. A rebalancing of demand away from America to the rest of the world would also help to shrink its huge current-account deficit.

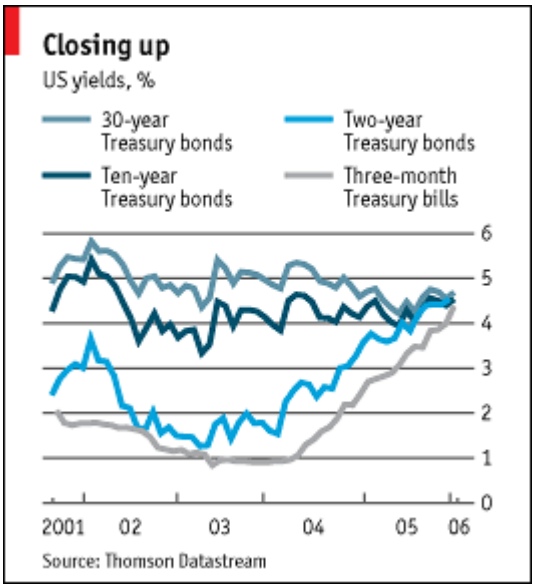
This all assumes that America's economy slows, rather than sinks into recession. The world is undoubtedly better placed to cope with a slowdown in the United States than it was a few years ago. That said, in those same few years America's imbalances have become larger, with the risk that the eventual correction will be more painful. A deep downturn in America would be felt all around the globe.

Bond markets

Long ranger

Feb 2nd 2006
From The Economist print edition

Once exiled, the 30-year Treasury bond rides back to the rescue



TRADERS of the long bond have felt emasculated since America's Treasury stopped selling its 30-year paper in October 2001. Men (and most were men) with accents as broad as the Hudson River used to boast of the clout the benchmark bond gave them. These capital-market vigilantes liked to think that they had forced Bill Clinton into his successful deficit-busting programme in the early 1990s. Less than a decade later, they fell victim to their own success. The Bush administration, claiming that the good order of America's public finances had made the market illiquid, suspended 30-year issues. On February 9th, however, the long bond will be back, and it is not just New York's traders who will welcome its return.

The Treasury's judgment four years ago now looks hasty, given the deterioration of the fiscal position since. And issuing 30-year bonds again looks like good housekeeping. It makes sense for the government to replace short-term with long-term debt, now that the extra cost of locking in a longer repayment period has shrunk to almost nothing (see chart). The average maturity of America's debt has fallen to four years and ten months, according to Standard & Poor's, a rating agency. The frequent need to roll over that borrowing, says S&P, means that the United States will be the world's largest government-bond issuer this year, even though its public debt, at $7 trillion, is smaller than Japan's.

The Treasury intends to sell $14 billion of 30-year bonds at a refinancing auction next week, and perhaps as much again later in the year. Although a lot by historic standards, it will meet only a small part of the Treasury's needs (this quarter, it will borrow a net $188 billion). The new supply of long bonds is therefore hardly likely to be the trigger for a sell-off.

Nor is it expected to barge corporate borrowers out of the market, although some issuers seem to have rushed to beat the Treasury. Last month there was “a food fight” among investors for companies borrowing for 30 years, according to David Goldman of Cantor Fitzgerald, a broker. He says a fresh 30-year government bond will provide a liquid new benchmark for pricing private-sector issues (its “off-the-run” predecessors now mature within 25 years at most, and look a bit stale). He hopes that for the same reason, the maximum term of index-linked government bonds will be extended from 20 to 30 years. In addition, more liquidity at the long end would help swap markets.

America's pension funds, especially those with underfunded defined-benefit schemes, will probably

offer the returning long bond the warmest embrace. Pension funds still hold almost two-thirds of their assets in equities, and a much smaller proportion in long-term bonds, which may match their liabilities more closely. Meanwhile, the Pension Benefit Guaranty Corporation, a federal entity that insures American corporate pensions and takes over some of the most troubled schemes, says that single-employer defined-benefit pension plans have a $450 billion hole.

Last year the White House set out to tighten standards on the way pension assets and liabilities were measured and matched. Separate reform bills are crawling through the two houses of Congress. Whatever the outcome, bond markets expect that regulators will eventually strong-arm pension funds into stocking up on long-term government bonds. It appears that hedge funds are also stockpiling—perhaps anticipating a squeeze.

Americans need only to look at Britain to see the impact such regulatory changes can have on long-term debt markets. Because (unlike in America) British pensions are usually indexed to inflation, the British government last year sold 50-year inflation-protected gilts for the first time. This week market-makers requested 40-year equivalents too, to provide another staging post along the yield curve. However, the supply of all long-term paper has fallen behind demand, producing price anomalies: on January 24th, 50-year bonds were auctioned at a real yield of less than 0.5%.

America's long-term yields are nothing like as low: 4.7% in nominal terms or roughly 1.5% after inflation. Given the uncertainty about where the fed funds rate will peak and the prospects for pension reform, there is no immediate reason for long-term rates to fall to British levels. Thankfully, America's Treasury appears to have gathered what the British learnt a little late: it is better to put enough long-term bonds on the market before urging pension funds to go out and buy them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Hedge funds and private equity

Unhappy hunting grounds

Feb 2nd 2006
From The Economist print edition

Two groups of investors pursue the same prey

Get article background

BESIDES a shared taste for funny names and fancy fees, it has usually been easy to distinguish hedge funds from private-equity firms. Most hedge funds hunted in liquid markets, where they could jump in and out like cats and there was no need to tie investors in for long periods. By contrast, the strength of private-equity firms lies in corporate surgery. That takes longer, so they expect investors to wait years before they can get money out.

Over the past three years, hedge-fund returns have paled against those of buy-out firms and even against stodgier stockmarket benchmarks. According to Huw van Steenis, of Morgan Stanley, more net new money went into private equity than into hedge funds last year. That has pushed hedge-fund managers into less liquid markets, such as mid-cap stocks. As a result, they sometimes encroach on territory private-equity firms consider their own. When both groups find themselves stalking the same prey, tempers can flare.

Reuters

This season's must-have label

That has happened at Tommy Hilfiger, an American fashion brand which appeals to both preppy college kids and teenage gangs. Hilfiger is being fought over by a hedge fund and a private-equity group. In December it agreed to a sale for about $1.6 billion to Apax Partners, a London buy-out firm. Bankers from J.P. Morgan gave an opinion that the price was fair. “Bottom line, it was a thorough and fair process,” said Mario Baeza, a Hilfiger director.

Not so, said Sowood Capital, a hedge fund with a 6.3% stake in Hilfiger, in a filing to the Securities and Exchange Commission on January 23rd. It said it would vote against the takeover. “The public shareholders have, in essence, 'paid' for the turnaround of [Hilfiger] and now Apax stands to reap the benefits,” it complained.

More such spats seem likely. Sought-after hedge funds like Sowood, set up by two former administrators of Harvard University's endowment, can convince investors to commit their money for at least two years, giving them room to trade less liquid securities. The number of funds with long lock-ins is likely to increase. February 1st marked the deadline for hedge-fund managers to register with America's Securities and Exchange Commission, unless their lock-ins exceed two years. Anyone who could escape the burden of registration by extending the lock-in period was bound to try, giving him more scope to behave like a buy-out group.

The chase for similar assets need not create friction. When Canada's Fairmont Hotels went on sale last year, much of the credit went to the not-so-gentle persuasion of Carl Icahn, a veteran investor. On January 30th a partnership involving Colony Capital, a private-equity fund, agreed to pay $3.9 billion to take it over.

Whether hedge funds and private-equity firms co-operate or fight, the line between them is blurring. That's fine, but with more investors hunting on the same ground, returns might be trampled. If so, it will be even harder to justify the fees.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Payments in the euro zone

Stick beats carrot

Feb 2nd 2006 | FRANKFURT
From The Economist print edition

Gentle persuasion may not be enough to create a single payments area

THIS week 59 banks put their name to a project to enable direct debits across European borders by 2008. It is but a small step on a slow journey. Seven years after the birth of the euro and four years after notes and coins made their appearance, the euro zone still has a patchwork of incompatible systems for transferring money between member countries. If an estimate by the European Central Bank is to be believed, European businesses might be €50 billion-100 billion ($60 billion-120 billion) a year better off were the euro zone covered by just one or two interoperable payment systems.

No wonder Charlie McCreevy, the European commissioner for the internal market, has become increasingly strident about the importance of a single European payments area (SEPA). In December the commission published a proposal for a directive that will clear legal obstacles to seamless cross-border payments. It is now preparing a list of “incentives”, probably a combination of sticks and carrots, to encourage banks and their customers to switch to a pan-European system.

One reason for the banks' inertia and that of most of their customers (besides the biggest companies) is that national payment systems work well, by and large. They were also costly to build; and small cross-border payments—ie, of less than €50,000—account for only 3% of overall volume. Some bankers think that building a single pan-European system makes about as much sense as buying a Rolls-Royce for monthly visits to the hairdresser.

So far, the only big steps towards SEPA have been forced by the commission. In July 2003 its Regulation 2560/2001 came into force, requiring cross-border transfers in euros below €12,500 to cost no more than domestic ones. Because banks in some countries do not charge for domestic transfers, the regulation has simply landed them with extra expense. And since the start of the year it has applied to payments of up to €50,000.

The proposed new directive requires that by 2010 transfers of up to €50,000, both domestic and cross-border, must be settled by the end of the next working day. At the moment international payments can take up to ten days and domestic ones four. The cost to the customer must be clear and no intermediary may take a cut on the way, a practice that is endemic today. The draft directive would also like payments to be opened to non-bank competition. But the commission does not specify how the SEPA is technically to be achieved. As far as possible it would like the market to sort that out.

This is laudable, but the market has been slow. The SEPA project is being led by the European Payments Council (EPC), a group of private-sector institutions, mostly banks. Some of these banks are also shareholders in EBA Clearing, which already operates systems for three types of cross-border payments, although with modest volumes. Because banks are reluctant to replace

expensive national systems, not many are keen to switch to EBA Clearing. That said, in October Luxembourg's banks decided to shift their domestic and cross-border transfers to EBA Clearing's system for low-value payments, known as STEP 2. Some big Italian banks are expected to follow suit soon. EBA Clearing is also behind the new direct-debit project.

The EPC appears incapable of reaching a consensus. The only real pressure for change is coming from big companies. Some, such as Royal Dutch Shell, Hewlett-Packard, General Electric and IBM, are acting through a group called TWIST (for Treasury Workstation Integrated Standards Team) but aim to standardise big companies' connections to banks and each other worldwide, rather than just in Europe. The European Associations of Corporate Treasurers are a wider group somewhat at odds with TWIST. Many smaller members simply do not want the cost and interruption that change might bring.

As with Regulation 2560/2001, if the European Commission is serious about SEPA it may find that it has to wield the stick again. Yet the commission itself is divided: the internal market directorate is pushing for a pan-European system, while the competition directorate might find the solution anti-competitive. Eric Sepses, a payments veteran at Citigroup, sees the use of the stick as inevitable. “It's one thing to build a system, another to get people to use it.” He cites the example of euro bank accounts. Banks offered these accounts from 1999, but almost no one bothered to open one until 2002, when marks, francs and so forth were forcibly converted into the new money. *Dirigisme* can sometimes be more effective than *laisser-faire*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Technology and exchanges

Moving markets

Feb 2nd 2006
From The Economist print edition

Shifts in trading patterns are making technology ever more important

AN INVESTOR presses a button, sending 1,000 small “buy” orders to a stock exchange. The exchange's computer system instantly kicks in, but a split second later, 99% of the orders are cancelled. Having found the best price, the investor makes his trade discreetly, leaving no visible trace on the market—all in less time than it takes to blink. His stealth strategy remains intact.

Events like this happen many times a day, as floods of orders from active hedge funds and “algorithmic” traders—who use automated programs to buy and sell—rush through the information-technology systems of the world's exchanges. The average transaction size on leading stock exchanges has fallen from about 2,000 shares in the mid-1990s to fewer than 400 today, although total trading volume has soared. But exchanges' systems have to cope with more than just a growing onslaught of “buy” and “sell” messages. Customers want to trade in more complicated ways, combining different types of assets on different exchanges at once. Then, as always, there is regulation. All this is pushing technology further to the fore.

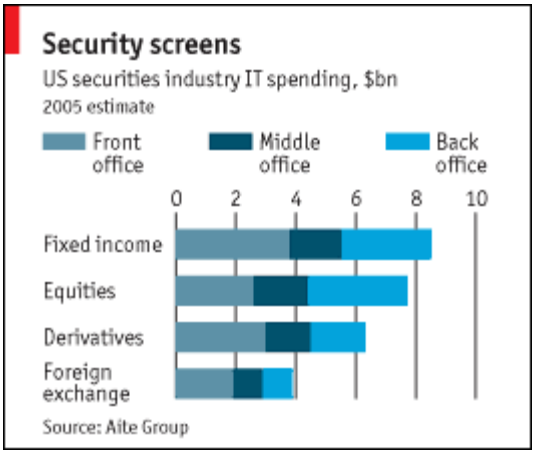
Recent embarrassments at the Tokyo Stock Exchange have illustrated what can happen when systems fail to keep up with the times. In just the past few months, the importance of technology has been plain in mergers (those of the New York Stock Exchange and Archipelago, and NASDAQ and INET); collaborations (the decision by the New York Board of Trade to use the Chicago Board of Trade's trading platform); and the creation of off-exchange trading networks (including one unveiled recently by Citigroup).

Technology is hardly a new element in financial markets: the advent of electronic trading in the 1980s (first in Europe, later in America) helped to globalise financial markets and drove up trading volumes. But having slowed after the dotcom bubble it is now demanding ever more of exchanges' and intermediaries' attention. Investors can now deal more easily with exchanges or each other, bypassing traditional routes. As customers' demands and bargaining power have increased, so the exchanges have had to ramp up their own systems. “Technology created the monster that has to be addressed by more technology,” says Leslie Sutphen of Calyon Financial, a big futures broker.

Aite Group, a research firm, reckons that in America alone the securities and investment industry spent $26.4 billion last year on IT (see chart), and may spend $30 billion in 2008. Sell-side firms spend most: J.P. Morgan Chase and Morgan Stanley each splashed out more than $2 billion in 2004, while asset-management firms such as State Street Global Advisors, Barclays Global Investors and Fidelity Investments spent between $250m and $350m apiece. With brokerage fees for trades whittled down, many have concluded that better technology is one way to cut trading costs and keep customers.

Exchanges, meanwhile, are spending heavily to keep pace. Celent, a consulting firm, reckons that last year the

NYSE spent $140m on technology, NASDAQ $110m and Euronext $100m, while INET, one of the electronic communication networks (ECNs) that dominate off-exchange trading, spent about $40m.



Exchanges are having to adapt to changes in their customer base, now that hedge funds and algorithmic traders account for a greater share of volume. Both are big in America and growing in Europe, and tend to create complex strategies using several asset classes, which are then executed on various exchanges.

This is prompting exchanges, which these days tend to be in the business of making money, to consider building platforms that can handle several asset classes. The London Stock Exchange, which says that algorithmic trading now accounts for about 40% of its total volume, is in the midst of a four-year project to develop such a platform by next year. It notes that its rivals (and suitors) Deutsche Börse and Euronext both use separate platforms for equity and derivatives trading.

In America, meanwhile, the all-electronic Archipelago handles trading in stocks, exchange-traded funds and options, and plans to add corporate bonds and futures to its platform. The International Securities Exchange, an electronic options exchange, is considering a move into equities, and there is speculation that the Chicago Mercantile Exchange (CME), a big futures exchange, could expand into energy products or equities through an acquisition (talks with Euronext were reported this week).

The rise of cross-asset and cross-border trading has set people thinking about standardising communications. Big exchanges tend to have proprietary protocols, but there are signs of growing interest in a messaging protocol known as FIX. First used by buy-side and sell-side firms to converse about equity trades, FIX has gone through several upgrades and is now gaining use in other asset classes. The CME, OMX (a Nordic stock-exchange group) and the Singaporean stock exchange are among those now using the protocol.

Looming regulation is applying extra pressure. An American rule known as Reg NMS and the European Union's Market in Financial Instruments Directive, though not yet in force, are already promoting new technology by demanding greater pre- and post-trade transparency.

The result of all this is that technology will be a competitive battleground for years—to the glee of vendors. “We've seen a slow burn for a number of years,” says Colm Furlong of Sungard, a software firm. In the next 12 to 24 months, he predicts, “We'll see a more tectonic shift.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade in eastern Europe

Exporting success

Feb 2nd 2006
From The Economist print edition

Trade makes you rich—but reform at home is what causes it

COMMUNISM divided the world into two camps, with a grey zone in between. Now capitalism has similarly divided the former captive nations. On one side are countries now tightly integrated into the world economy: chiefly, eight new members of the European Union, such as Poland and Estonia. On the other are the 12 countries of the Russian-dominated Commonwealth of Independent States (CIS), where foreign trade is backward in both quality and quantity: commodity-based exports, few services and big bureaucratic barriers. In between are the seven countries of south-eastern Europe, ranging from prosperous Croatia to dirt-poor Albania.

A new study from the World Bank* poses some good questions about trade and economic growth in the post-communist world. What are the real differences between the three groups? What factors cause them? And what policies might help the laggards?

It is tempting to think that formal trade policy matters a lot. Certainly, rich-country protectionism has hurt exports, particularly food and metals. Relative to its exports, Ukraine has suffered more anti-dumping suits than China in the past decade. The “spaghetti bowl” of interlocking bilateral and regional trade agreements between different countries outside the EU is costly and confusing. Ten CIS countries are not even members of the World Trade Organisation.

But self-imposed, low-level barriers to trade have a much worse effect. The study describes the “extraordinarily pernicious” effect of corrupt customs services in Central Asia and the Caucasus. Getting a lorry-load of goods from Armenia to Russia means paying $2,000 for “security”. Fully 46% of the price of shipping a container from Rotterdam to the Georgian capital, Tbilisi, is accounted for by transit through Georgia itself. Of this, unofficial payments make up nine-tenths. Clearing customs in Tajikistan requires 18 bits of paper from different government agencies.

The gains from what the study calls “trade facilitation” are huge. It gives the countries scores for their regulations, customs services and the efficiency of ports. Raising these scores to merely half EU levels would bring $178 billion in extra trade, a gain of around 50%.

The underlying message is that clean, competition-friendly countries do well. Foreign investment, good scores in corruption indices, and low barriers to the entry of new firms and the exit of failing ones (such as crunchy bankruptcy laws) are strongly correlated with high shares of imports and exports in GDP.

The extent of reform counts for much more than each country's starting point. Getting ready to join the EU forced the pace for the eight countries now in the union. Now they “overtrade”: imports and exports are around one-third higher, as a share of their national income, than in other countries with similar geography and incomes per head. The south-eastern Europeans “undertrade” by 25%.

In short, it is reforms “behind the border” that count. Foreign trade is highly beneficial—but ultimately it is a symptom of success, not a cause.

---

* “From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade.” World Bank, 2006

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Dividing the pie

Feb 2nd 2006
From The Economist print edition

To whom have America's productivity gains gone?

CONVENTIONAL wisdom has it that there is something odd about America's current economic cycle. Productivity growth, notwithstanding a sharp slowing at the end of 2005, has been stellar. But workers have not shared in this prosperity: wages have been squeezed, while firms make record profits. Whether the cause lies with cheap Chinese workers, soaring medical costs or weakening unions, the common perception is that today's productivity boom, unlike earlier ones, has done Joe Sixpack little good.

This dissonance between wage and productivity growth drives a good deal of political argument in Washington, DC. Republicans point to productivity gains to claim that the economy is strong. Democrats, in turn, focus on weak wage growth in arguing that America is on the wrong track.

Both sides are wrong, because comparing wage and productivity growth is less simple than it sounds. As Ian Dew-Becker and Robert Gordon, two economists at Northwestern University, point out in a new paper*, much of the apparent dissonance is purely statistical. The two most widely cited measures of wage and productivity growth in America—the growth of real hourly wages and of productivity in the non-farm business sector, both published by the Bureau of Labour Statistics—ought never to be compared, though they often are. They cover different bits of the economy; the hourly wage numbers do not include the value of non-wage benefits, such as health care; and the two measures are often translated into real terms using different deflators.

Mr Gordon is a prominent, and controversial, dissector of productivity growth. (He is best known for arguing in the late 1990s that, properly measured, America had not really seen a productivity revolution outside the computer sector. He has since changed his tune.) In this paper, he and Mr Dew-Becker point out that once you measure compensation growth and productivity growth on a similar basis, compensation has trailed productivity only by a little since 2001. Put another way, labour's share of national income has fallen, but this has not fully unwound a substantial rise in the late 1990s. Indeed, the authors claim that it was higher in early 2005 than in 1997. So it is stretching the truth to say that America's workers overall have not gained from the recent productivity boom.

That does not mean, however, that all or even most workers have seen the fruits of faster productivity growth. Which workers benefit depends not just on labour's overall share, but also on changes in the distribution of wage income. And it is well known that inequality has risen in America in recent decades as incomes at the top, in particular, have soared. By just how much is clear from a data series constructed by Emmanuel Saez, of the University of California, Berkeley, and Thomas Piketty, of the Ecole Normale Supérieure in Paris. These economists calculated a long-run distribution of income in America from information on tax returns.

Guess who got the cream

Their latest study† shows that the top 1% of Americans now receive about 15% of all income, up from about 8% in the 1960s and 1970s. Virtually all that rise came from marked increases in labour income. The share going to the top 1% is back to where it was a century ago. But whereas the elite's income then came largely from capital, today's rich gain their money from work.

Messrs Dew-Becker and Gordon use these tax-based data and map the shifts in income distribution on to changes in productivity growth between 1966 and 2001. They find that the bottom 90% of workers saw real wages rise, on average, by less than (economy-wide) productivity. Only the best-paid 10% enjoyed real increases in compensation in excess of average productivity growth. And within this group, the spoils were concentrated at the very top: over one-third of this decile's gains went to the top 1% of earners.

What is more, Messrs Dew-Becker and Gordon find that during the productivity spurt at the end of the period studied this long-term trend continued. The share of labour income going to the top 10% of workers increased slightly, compared with the entire period. That going to the best-paid 1% increased substantially. The skewed distribution of productivity gains is thus less a new phenomenon than a secular trend.

These results might not surprise anyone who has looked closely at the evolution of American income inequality. And there are some flaws in them: Messrs Dew-Becker and Gordon simply assume that non-wage benefits, which do not appear in the tax-based data, make up a similar share of all workers' income. This surely raises top people's estimated share of the pie. But the results are striking nonetheless and raise a further question: what lies behind this secular rise in top incomes?

Here the productivity guru is less helpful. Most labour economists think the biggest cause of increasing wage inequality has been a rise in returns to education and skills, thanks largely to technological change. Mr Gordon and his colleague disagree, arguing instead that increased payments to superstars, such as baseball players, and out-of-control pay rises for chief executives, are more plausible reasons for the rise in inequality. There may be something to this: the wage packets of today's sports stars and executives make the eyes water. But the authors' explanation of this is thin; and there are too few of these people to account for the trend they identify. Still, their work should bring clarity to an often confused debate. That debate will rage on.

---

* "Where Did the Productivity Growth Go? Inflation Dynamics and the Distribution of Income." NBER Working Paper no. 11842, December 2005

† "The Evolution of Top Incomes: A Historical and International Perspective." NBER Working Paper no. 11955, January 2006

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Malaria

Casting shadows

Feb 2nd 2006
From The Economist print edition

A new way of predicting a malaria epidemic months in advance

Panos

Get article background

MALARIA can be prevented and it can be treated. Yet every year it kills 1m people and contributes to the deaths of a further 1.7m, mostly children under the age of five living in Africa. The World Health Organisation (WHO) estimates that the disease, caused by a parasite that is carried from person to person by mosquitoes, infects up to 500m people every year. Beyond the human misery, malaria is an economic scourge, too. It costs poor sub-Saharan Africa $12 billion a year in lost output and consumes 40% of all the region's public-health spending.

In West African countries such as Ghana and Nigeria, malaria is endemic—that is, it is constantly present in the population. In other areas, such as the highlands of eastern Africa, the Sahel and the deserts of southern Africa, malaria comes in sudden, deadly epidemics.

Although the greatest burden of malaria in Africa falls on those living in endemic regions, epidemics pose a serious threat, killing more than 100,000 people of all ages every year. Those at greatest risk have had little exposure to malaria and thus have developed little or no protective immunity. Up to 124m people in Africa live in areas at risk of seasonal epidemic malaria, and many more in areas outside Africa—including India and Indonesia—where transmission is less intense.

It turns out, however, that the risk of an epidemic outbreak of malaria is closely linked to the

weather. This is because the mosquitoes that transmit the parasite need pools of standing water in which to lay their eggs. Scientists led by Madeleine Thomson of Columbia University in New York have used this knowledge to find a better way to give early warning of a malaria epidemic, increasing the forecast time from a matter of days or weeks to five months. The new system, published this week in *Nature*, should help people in countries such as Botswana, South Africa and Swaziland, which even now have the capacity to detect and respond to a malaria epidemic within two weeks. It should prove invaluable to those living in worse organised places such as Zimbabwe, which cannot respond so quickly.

Weather watching

The physical basis for seasonal climate prediction lies, to a great extent, in being able to forecast the slowly varying interactions between the atmosphere and the oceans. Even today, knowing the sea-surface temperature and the monthly rainfall over the winter months allows scientists equipped with the right computer models to predict a malaria epidemic a month in advance. (There are also early-detection mechanisms that look for the disease in sentinel sites on a weekly basis in more than 15 African countries, but these give only a short time in which to respond to an outbreak.)

The new early-warning system brings this approach right up to date, by integrating many different climate-forecasting computer models that couple together information about how the atmosphere and the oceans combine to create the weather. The scientists tested it using old data for Botswana dating from 1982 to 2002 and found a huge improvement. Its predictions of an impending malaria epidemic would be available at the beginning of November, while other models warn only in early March, just a month before an epidemic typically starts.

The advanced warning comes at a price, however. The earlier the prediction is made, the less confidence the scientists have of its accuracy. Indeed, the system would appear to be slightly less accurate than other models.

The gain in lead-time should nevertheless provide governments and non-governmental organisations with the opportunity to plan for a bad season. Bednets treated with insecticide cost about $5 a piece and, WHO estimates, can cut death rates by 20%. Another proven technique is to provide pregnant women with a couple of hefty doses of anti-malarial drugs when they visit antenatal clinics, whether the women show signs of the disease or not. Pregnant women and their babies are particularly vulnerable to malaria. Moreover, malaria infection boosts production of a substance that might increase the replication of HIV, the virus that causes AIDS, in the placenta. This leaves the child at greater risk of getting HIV from his mother. Other sound but basic advice is for people to use sand to fill pools where mosquitoes might breed, to empty and bury any containers that might fill with rain, and to store water for drinking, cooking and washing in covered containers.

The researchers are now focusing their efforts on making their model part of the routine epidemic-malaria control promoted by WHO in Zimbabwe and undertaken by the National Malaria Control Programme in Botswana. In the coming years, they hope, the value of their early predictions should be measured in tens of thousands of lives.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Dementia

Sleeping on it

Feb 2nd 2006
From The Economist print edition

Similarities between dementia and hibernation suggest a treatment

WHEN an Arctic ground squirrel hibernates, its body temperature drops below the freezing point of water and the blood-flow through its brain slows to a trickle. Though the squirrel's brain survives, it loses many of the nerve-cell connections that govern how it operates. The brain regenerates itself soon after the animal emerges from its long sleep. Exactly how is a matter of intense research but one group of scientists thinks that part of the explanation lies with a protein associated with Alzheimer's disease. And that raises the hope that the ravages wrought on the human mind by Alzheimer's disease could be as reversible as the winter freeze.

Arctic ground squirrels hibernate for up to seven months of the year, sinking into a torpor from which they periodically rewarm their bodies to 37°C before re-entering the supercooled state. Research has shown that during hibernation these animals lose memories they laid down beforehand and also their ability to form new ones. This loss must be temporary, however, or the animal would become more amnesic with each hibernation.

The brain stores information in neuronal networks. The chemical connections between neurons, called synapses, are thought to be critical to the formation of those networks and hence the laying down of memories. In 2003 a group led by Thomas Arendt of the University of Leipzig in Germany showed that the number of synapses in the hippocampus, a brain structure crucial for learning and memory, falls during hibernation. This is partly because hippocampal neurons lose many of their branching projections, or dendrites, and so provide less opportunity for forming synapses with neighbouring neurons.

All that changes within two or three hours of an animal emerging from hibernation, when a wave of new growth ensures that the number of synapses in the hippocampus soars beyond even pre-hibernation levels. The next 20 hours see a pruning back of those connections, rather as in the very young human brain. Just as in that developmental process, the new synapses seem to enhance memory only once the pruning has taken place.

Nobody knows what triggers these dramatic morphological changes in the hippocampus during and after hibernation. But Dr Arendt's group has made the startling discovery that hibernating brains accumulate a protein called hyperphosphorylated tau. This protein is known also to accumulate in the neurons that degenerate in the brains of people with Alzheimer's disease. Notably, though by no means exclusively, it accumulates in the hippocampal neurons, where it is associated with the formation of lesions.

There are several competing theories about what causes Alzheimer's disease. One possibility is that the tau protein causes the lesions in the brain. Another is that something else causes the lesions, and the tau protein is the brain's defence against that attack. Thus, it is possible that the tau protein might not be the problem, but rather a symptom of the problem.

During hibernation, the levels of tau protein in a squirrel's hippocampal cells are directly correlated with the loss of synapses—but not with the appearance of lesions. On emerging from hibernation, the squirrel eliminates the tau protein from its brain. This has led Dr Arendt to suggest that rather than being a part of a disease process, the formation of the tau protein could be a mechanism by which the brain protects itself. He argues that the brain is armed with mechanisms for clearing the tau protein and that the reason it doesn't in people with Alzheimer's disease is because the protein is protecting the neurons.

His stance is contentious. “As the field stands, viewing pathology as anything other than pathogenic is controversial. Saying it is protective is heretical,” says Mark Smith of Case Western Reserve University in Cleveland, Ohio. He has conducted studies on living neurons which suggest that the tau protein is produced in response to oxidative stress, thus lending support to the protective hypothesis.

Dr Arendt's group is now engaged in discovering exactly how the tau protein can be cleared from the brain. Help for Alzheimer's patients remains uncertain and a very long way off, but spring seems to have come a bit closer.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Reproduction

Big daddy

Feb 2nd 2006
From The Economist print edition

Why fathers-to-be pile on the pounds

THE term “couvade syndrome” has been used to describe men who share the symptoms of their mate's pregnancy. (Couvade is a word derived from the French for “to incubate” or “to hatch”.) Symptoms of the syndrome commonly include indigestion, nausea, headaches and weight gain. By and large, such symptoms—in particular, pain during a partner's labour—have been seen as psychosomatic, so that couvade has been put down to an exhausting list of possible causes ranging from anxiety to pseudo-sibling rivalry, identification with the fetus, ambivalence about fatherhood, a statement of paternity and birth envy. However, a new study on monkeys hints that when it comes to weight gain, there might be more to couvade than first meets the eye.

Toni Ziegler and colleagues at the University of Wisconsin-Madison examined the behaviour of fathers-to-be in two species of New World monkey—the common marmoset and the cottontop tamarin. They found that the male's weight in both species increased during their mate's pregnancy. The 14 male marmosets went from around 410g at the time of conception of their offspring to 424g when their partners gave birth five months later. The 11 male tamarins went from 556g at conception to 568g at birth six months on. A further 13 male monkeys (six marmosets and seven tamarins), which were not expecting to father offspring, showed no weight gain. The work has just been published in *Biology Letters*.

What was particularly useful about this study was that the researchers were able to weigh males and females throughout the pregnancy. It turns out that the males did not follow the same pattern of weight gain as pregnant females did, which is what you would expect if the males were eating sympathetically with their mates. In fact, the male monkeys started to pile on the grams far earlier than their mates, while their pregnant partners tended to put on most of their extra weight in the last few months of gestation.

So if the male weight gain is not simply down to sympathetic eating, what is going on? In mammalian species where both the mother and the father care for infants, the behaviour of the father is crucial for the survival of the offspring. In these New World monkeys, the fathers spend as much or even more time caring for infants than the mothers. They need to be prepared to engage in caring for their offspring immediately after the birth, which involves carrying more than one infant. So perhaps the fathers are gaining weight so as to prepare for the energetic costs of caring for their offspring.

What this means for couvade syndrome in human males is not certain, but it does offer the intriguing possibility that the father-to-be might, in his own modest way, be eating for two.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Chronographs

Silicon spirals

Feb 2nd 2006 | GENEVA
From The Economist print edition

A luxury watchmaker is putting silicon in its timepieces

MECHANICAL watches represent for some the last bastion of fine craftsmanship in a dreary world of mass-produced microelectronics. So it came as a surprise to connoisseurs recently when Patek Philippe, a smart Swiss watchmaker, announced that the company was testing silicon inside some of its luxury watches. In fact, the move makes perfect sense. This is because the silicon in question is a spiral designed to take the place of the balance spring in mechanical watches. Moreover, in many ways, it will do the job better than a metal balance spring.

Since the first timepieces were developed, watchmakers have been pushing at technological limits to produce more accurate devices. The Holy Grail is isochronism—ensuring that the oscillations that push the second hand forward are perfectly regular. Quartz watches use very high-frequency oscillations of a crystal, which can be tuned with extreme precision to produce regular signals. Mechanical watches still rely on tiny spirals, invented by the Dutch scientist Christian Huygens in 1675, which, at least theoretically, provide perfectly isochronic oscillations. But in practice they don't, because subtle mechanical effects distort the regularity of the oscillations. In spite of several ingenious modifications to Huygens's original invention, isochronism remains elusive.

The Spiromax balance spring unveiled last month addresses several weaknesses of conventional metal spirals. The balance spring is etched out of a thin silicon wafer using a photolithographic technique, similar to that used for microelectronic chips, so its exact shape and thickness can be more carefully controlled than with metal. This ensures that the expansion and contraction of the spiral is perfectly symmetric, improving isochronism. At the same time, the connections of the spiral to the rest of the movement are far more accurate, also enhancing performance, and eliminating the need for fiddly adjustments.

Silicon is stiffer than metal, so the spring can be made a quarter the thickness of a metal one—down to nearly a tenth of a millimetre—which will help designers keen on making ever sleeker timepieces. Since silicon is not sensitive to magnetic fields, the Spiromax is unperturbed by these, whereas metal spirals can stall in the sort of magnetic fields produced, for example, by a scanner. A special treatment of the silicon, which Patek Philippe is keeping secret for the moment, ensures that the material is insensitive to temperature changes. Finally, because silicon is a single crystal, it cannot be deformed by mechanical shocks, whereas metals, which are made of microcrystals, can bend gradually over time.

With typical Swiss caution, Patek Philippe is studying the performance of the silicon before deciding how widely it will use the new technology. Silicon spirals have been oscillating in a few test watches for several months now, and a limited edition of a hundred or so will be available at a watchmakers' trade fair in Basel at the end of March. With prices at about $20,000, there is no risk of these silicon watches being confused with their humble quartz cousins.

The Richard Casement internship

Feb 2nd 2006
From The Economist print edition

We invite applications for the 2006 Richard Casement internship. This is for a would-be journalist under 25 to spend three months of the summer on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words that they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. Applications must reach us by February 25th. They should be sent by e-mail to casement@economist.com

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

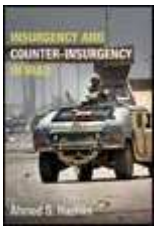
The Iraqi insurgency

What's really going on?

Feb 2nd 2006
From The Economist print edition

A grim view of the violence in Iraq from inside the American camp

Insurgency and Counter-Insurgency in Iraq
By Ahmed S. Hashim



Cornell University Press; 240 pages; $25.
Hurst; £20

Buy it at
Amazon.com
Amazon.co.uk

Reuters

AHMED HASHIM is well-placed to study the Iraqi insurgents and their opponents. An American of Turkish-Egyptian origin, he is a professor at the Naval War College in Newport, Rhode Island, and was an adviser to the American authorities following Saddam Hussein's fall, both in Baghdad and in hotbeds of violence such as Tel Afar, near the Syrian border. After many delays, his bleak appraisal comes out next month: it may well be the most detailed analysis yet of the insurgency and America's efforts to squash it.

For those who hope that Iraq will evolve into a benign democracy where the three main groups—Shia Arabs, Sunni Arabs and Kurds—rub along together, Mr Hashim's conclusions are glum. He sees no quick way to end the violence. The United States, he reckons, “sees the world in black and white rather than shades of grey”. It is “congenitally incapable of waging effective counter-insurgency”. Iraq is “headed towards the division of its peoples”. He sees no good guys coming to power at all.

Mr Hashim's best chapters concern the insurgency's nature. Many analysts have tried to divide the fighters into Islamist and nationalist components, but Mr Hashim concludes that the core is a “successful fusion of nationalist and religious sentiment among Sunni Arabs”. He gives a thorough breakdown of about 20 noteworthy groups; some intelligence experts have listed more than 70 in all, but many of them elide into one another and change their names. No person or group has emerged so strongly that the new order must accommodate or defeat him or it. The insurgency's foreign element, he notes, is “minuscule”; of the first 8,000 suspected insurgents nabbed by the Americans, only 127 had foreign passports.

Mr Hashim also contradicts the prevailing assumption that suicide bombings, of which there were more than 400 in the first two years after Mr Hussein's fall, have been conducted only by Islamists. “Martyr operations are the only effective weapon the resistance has” against the Americans, explains a secular-minded insurgent. In May last year, by the way, more suicide bombs went off in Iraq than during the entire Palestinian *intifada* against the Israelis since 2000. Most are now directed against home-grown Iraqi forces rather than against foreign troops.

Most depressing, for those who hope that a stronger Sunni representation in parliament would give a potential negotiating voice to the insurgents, Mr Hashim says that none of the MPs elected in the December ballot has any real influence with the fighters. The Association of Muslim Scholars, an informal group of Sunni clerics who tend to justify the insurgents' actions, are also a lot less powerful than is often assumed. “No Sunni political group or personality working legitimately in the political arena,” he writes, “has been able to reach out to the insurgents.”

One difficulty in addressing the insurgents, beyond killing them, is that their aims are so vague. Their sole unifying desire is for foreign forces to leave the country. Their chief ploy is to make the country ungovernable, not to take any of it over, although Mr Hashim mentions a clutch of towns that are or have been run by the insurgents. “If we do not hold authority in Iraq, then we'll allow no one else to hold authority,” one leader told him.

Although Mr Hashim expresses respect for several senior American officers with whom he worked, and argues that American counter-insurgency methods have become more effective in the past year, overall he blames American incompetence for making matters worse. Of the 600-800 Americans who ran Iraq for the first year of occupation, only 17 could speak Arabic, while the briefings he was given by Americans in authority were “amateurish, pathetic, shoddy and heavily politicised”.

If Mr Hashim lays much of the blame for the insurgency on American obtuseness, he has little faith in the ability or even desire of the three main Iraqi groups to accommodate each other. With a host of telling anecdotes picked up across the country, he illustrates the growing antagonism

between them. Some of the most revealing passages describe relations among and between Sunni and Shia Arab groups, for instance between the followers of Muqtada al-Sadr, a Shia firebrand who, he says, remains hostile to the more cautious and most powerful of Iraq's Shia clergymen, Grand Ayatollah Ali al-Sistani. As for the Sunnis, few of them have begun to come to terms with their status as a minority group after centuries of supremacy over the Shias. Indeed, Mr Hashim quotes senior Sunnis vehemently denying that their co-religionists constitute a minority at all.

So far, the vaunted elections have produced the beginnings of “ethnocracy”, not democracy. “Low-level civil war and ethnic cleansing are already taking place,” he writes. “The country is raising not a national army but distinct mini-armies and a host of official and unofficial militias.” However, despite the insurgents' immediate demands and the long-term hopes of virtually all Iraqis that the Americans and their allies will eventually leave, a precipitate withdrawal must, Mr Hashim asserts, be avoided, as it would prompt an all-out sectarian war, even bloodier than what exists already.

The nearest he comes to offering a glint of hope is in a concluding discussion of the merits of a “soft partition”, akin to confederalism, whereby Iraq's three main groups agree to divide their territory, presumably with the oil-poor Sunni areas being given a fair dollop of national oil income. But for this to happen the Sunni Arab mindset, which still revolts at the prospect of Iraq's decentralisation, seeing it as synonymous with fragmentation, would have to undergo a drastic change. And that, says Mr Hashim, is not yet in the offing.

Insurgency and Counter-Insurgency in Iraq.
By Ahmed S. Hashim.
Cornell University Press; 240 pages; $25.
Hurst; £20

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

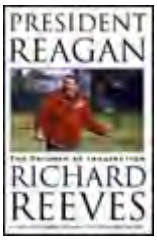
Ronald Reagan

Stars and bars

Feb 2nd 2006
From The Economist print edition

A TRUISM about film stars is that “everybody knows you but nobody knows you”. Millions of Americans looked at Ronald Reagan from afar and thought they knew him: the self-deprecating uncle with the certain principles and uncertain memory. Closer to him, people were not so sure. His attention wandered, they whispered; he ignored details and subcontracted policy to underlings; he wasn't the same after he was shot. Did he really know what he was doing?

President Reagan: The Triumph of Imagination
By Richard Reeves



Simon & Schuster; 592 pages; $30

Buy it at
Amazon.com
Amazon.co.uk

After you have finished Richard Reeves's biography, you are slightly wiser. Mr Reeves does not stint on the surreal details of the Reagan White House. There is the president's faith in astrology (he kept colour-coded charts of good and bad days: “February 20th-26th be careful...March 7th-14th bad period”), his habit of beginning newspapers with the comics (and ignoring much else) and the Iran-Contra tragicomedy, which often feels like “Dr Strangelove”, only with Leslie Nielsen of “Airplane” playing the president.

Yet, despite these goofy moments, the Reagan who emerges is very much his own master—a man who knew himself so well that he didn't really need to discover much else. He had sorted out most of his beliefs—the fierce hatred of communism and the deep distrust of big government—back in the 1960s. Certainly, he got through his day at the office as quickly as possible and then shuttled back for dinner with Nancy, a film and a good sleep. But he never let anybody else take control.

However smart his advisers were, they ended up being part of Reaganism—“a word”, Mr Reeves points out, “that defined his dominance.” “He treats us all the same—as the hired help,” admitted James Baker. Another sidekick called him the “most warmly ruthless man I've ever seen.” The working-class kid from Illinois behaved much like an English duke: he was civil to his servants, but saw no reason to keep in touch with the lower orders after they had left his service. Only occasionally, did he drop his nice-guy image. When Yuri Andropov died, Reagan said he wouldn't go to any memorial: “I don't want to honour that prick.”

Reagan's authority was not just a matter of deeply-held principles. Behind the indifference to details, there was a surprisingly good tactical brain. “Anytime I can get 70% of what I am asking for out of a hostile legislative body, I'll take it,” he explained about Congress. “I figure it will work well enough for me to go back later and get a little more of it here and a little more of it there.” In his negotiations with Mikhail Gorbachev, it was Reagan who repeatedly focused on the main issues.

Unlike some other biographers, Mr Reeves was an eyewitness to relatively little of all this. Most of his material is second-hand and the accumulation of detail, especially contemporary newspaper

accounts, is sometimes exhausting. But his main technique, of telescoping in on individual dramas of the presidency, does produce some memorable set pieces. The meetings with Mr Gorbachev read like a political thriller. But the one that stands out is the event that forged the Reagan legend: his brush with assassination in 1981.

It is easy to see why the country warmed to a man who insisted that he would walk into the hospital, but then collapsed inside. As doctors fought to save the president, blood bubbling out of his mouth, a secret-service man prayed. “Oh my God, we've lost him.” Meanwhile, back at the White House, his staff haggled over who should run the American government—little realising of course that the one who did was the genial old man hanging on to life in George Washington University Hospital.

President Reagan: The Triumph of Imagination.
By Richard Reeves.
Simon & Schuster; 592 pages; $30

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Alternative photography

Unfrozen in time

Feb 2nd 2006 | AUSTIN, TEXAS
From The Economist print edition

The daguerreotype is back

Deborah Luster

The line of beauty

THIS has been a bleak year for conventional photography. On January 12th, Nikon announced that it would no longer make most film cameras. A week later, Konica Minolta said it was quitting the camera business. These developments follow last year's bankruptcy filing by AgfaPhoto and Kodak's decision to stop making black and white paper.

Digital is clearly king, and the silver-gelatin process that dominated photography for more than a century is in its death throes. Such evolution is natural; the daguerreotype, the tintype, the salted-paper prints that peaked during the 19th century all melted away, as better or cheaper forms arose. But photographic progress has not pleased everyone—and some artists are reviving the antique tools of their trade. Long exposures and cumbersome equipment are back. The movement's leading lights include, for example, Mark Osterman and France Scully Osterman, whose Rochester studio specialises in collodion, a process that was abandoned in the 1880s and involves a syrupy liquid poured on to a glass plate.

The “alternative photography” movement got its start during the rebellious 1960s and 1970s. Low-tech pinhole cameras—with a tiny aperture instead of a lens, allowing for a soft focus—mounted a comeback. But the digital age has further boosted interest. The idea is that early forms have more texture, depth and character than pixels can create. The downside, though, is a return to toxicity. Making a daguerreotype—shiny images that used the first commercially available

photographic process—requires the deadly vapour from hot mercury to develop the image.

The return to photography's roots is captured in a small but delightful show in Austin. The exhibition juxtaposes old and new work. One of the most striking pairings shows two African-American women in tintype, a variant of the wet-collodion process that was popular in the 1860s owing to its cheapness and durability (the images were printed on metal sheets, typically iron). The first, by an unknown photographer, is from the Civil War era. Within the gold-tone frame, the neatly dressed subject is clasping a book—a remarkable statement for the age. A companion portrait, made by Deborah Luster in 2000 and pictured above, shows a female prisoner in Louisiana, where Ms Luster lives. Despite their physical smallness, both the old and the new tintypes radiate an astonishing grace and dignity.

Some hyper-purists in alternative photography believe that their subjects should dress up in period costume. This sounds kitsch, though Michael Gray, a British photographer, has produced a surprisingly soft and lovely print of three people outside the medieval Wiltshire abbey that once was home to the man who discovered how to use negatives to produce positive prints, William Henry Fox Talbot.

More often, modern photographers like to use the old processes in a jarring way. Gum bichromate prints were favoured by early 20th-century pictorialists because they could be coated with pigment for a painterly effect; Adam Lubroth, a contemporary American photographer, uses the technique to create brightly-coloured images of people sitting grumpily in their cars at red lights. Another example is platinum prints. These have long been associated with high-class occasions because they were expensive to produce. Also they showed images in clear detail, hence the elegant print of a woman gazing down upon the World's Columbian Exposition in Chicago in 1893. But Byron Brauchli has turned the idea of elegance on its head, and used this fine form (albeit with palladium, a close platinum substitute) to depict illegal logging in Mexico in 1993, with billowing smoke and trees shown in sharp relief.

For all this back-to-our-heritage zeal, one of the show's most notable aspects is how new technology enhances the old forms—or at least makes the work easier. Dan Burkholder, a Texan photographer, digitally brushed up his 2005 image of New York's Flatiron building in the spring with soft blue tones applied to the hand-coated platinum/palladium prints. Then there are digital negatives, which allow artists the luxury of bypassing the need for huge cameras to create alternative contact prints. Using the reverse approach, Sian Bonnell, a British photographer, has photographed a jelly mould with a pinhole camera, then digitally scanned the paper negative and produced a laser print. The hybrid, inevitably, is flourishing.

“The Image Wrought: Historical Photographic Approaches in the Digital Age” is at the Harry Ransom Humanities Research Centre, University of Texas, Austin until August 6th

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

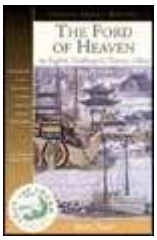
Memories of China

Boyhood dreams

Feb 2nd 2006
From The Economist print edition

EIGHTY miles down the railway from Beijing, Tianjin was for centuries the main port to the Celestial City and the Emperor of Heaven. The foreign powers who occupied it in 1860, in the wake of the second opium war, called it a "concession" or "treaty" port; the Chinese the "ford of heaven".

The Ford of Heaven: A Childhood in Tianjin, China
By Brian Power



Signal; 216 pages; £19.99 (hardback) and £12.99 (paperback)

Buy it at Amazon.co.uk

Foreigners in the treaty ports lived charmed, if claustrophobic lives, protected from the outside by gunboats, foreign troops and immunity from Chinese laws. When Brian Power was a boy, there was much that foreigners felt they needed to be protected against: fallout from the end of the Qing dynasty, the abdication of the child emperor, Pu Yi, the proclamation of the republic and all around evidence of drought and famine.

These events buffet the edges of Mr Power's memoir, but its centre is filled with the smells and memories of a quixotic boyhood: Pierre Teilhard de Chardin coming for afternoon tea long before he became the most famous Jesuit priest of the 20th century, Chinese storytellers reciting ancient serials in the street, market stalls smelling of cabbage stalks, aniseed, garlic, soya and oils, and during a visit to the house of a lone Chinese schoolfriend, the memorable sighting of a line of 12 young girls with bound feet, all of them dressed in bright pink gowns buttoned up to the chin. "My father's concubines," his friend announced. "They are going to their supper."

Mr Power's memoir struck a chord with many readers when it was first published in 1984, which may be why Signal is reissuing it in a special series devoted to classic travel writing and entitled "Lost and Found". Its power lies in its ability to take you back, not just to a place, but to an earlier existence—in this case to the inner world of a shy, but independent-minded, boy.

There are many foreign accounts of life in China, most of them characterised, oddly, by a complete absence of Chinese. Mr Power's is an exception. Central to the book—and to his early life—was his amah, Yi Jieh. When his brother disappeared, his baby sister died of meningitis and his mother collapsed, Yi Jieh was always there. As Frances Wood writes in a memorable introduction to this new edition, Yi Jieh "took him into her world, telling him Chinese stories, helping him understand what was going on in the market and, through her eyes, the world outside: she was the ideal companion."

As she bid the 18-year-old Mr Power goodbye in 1936, Yi Jieh pressed her hard hands to his cheeks. "True to her practical and loving nature she reminded him to buy apples for the trip." Mr Power never saw her again, but in this lyrical memoir, he brings her vividly to life.

The Ford of Heaven: A Childhood in Tianjin, China.
By Brian Power.
Signal; 216 pages; £19.99 (hardback) and £12.99 (paperback)

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Britain's Glorious Revolution

Regime change

Feb 2nd 2006
From The Economist print edition

EDMUND BURKE'S “Reflections on the Revolution in France” expressed a widespread horror at the violence of 1789 that the British monarchy adeptly used as propaganda. But it was also a contribution to a debate that was by then already a century old: what was the meaning of Britain's own revolution in 1688? Partly thanks to Burke's brilliance, the idea that 1688 was essentially British history bumbling on, as it had for centuries, took hold. Yet the dethroning of James II, and his replacement with an invading foreign king and his queen, was in fact a rare example of successful regime change in an early modern Europe. 1789 may have got more headlines, but 1688 endured.

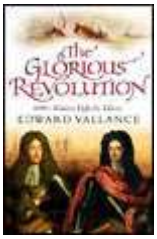
James II came to the throne in a strong position. Under his brother, Charles II, the Stuart monarchy had ridden a conservative wave generated by the mid-century earthquake of Charles I's beheading. James's accession was greeted by fanfares, despite widespread unease about rule by a Catholic monarch. Converting this goodwill into exile outside Paris within five years required a particular kind of bone-headedness. But even kind observers reckoned James had what it took. “My brother will lose his kingdom by his bigotry and his soul for a lot of ugly trollops,” was one reported prediction from Charles II.

What James needed was a Karl Rove figure to give him a sense of what was going on in the news sheets, pamphlets and coffee houses that flourished in the second half of the 17th century. Instead, he met fears of a Catholic takeover with laws that broke the Anglican monopoly of worship, education and office holding. By 1688 there were Catholic chapels in every English town of any size (though hardly enough papists to fill them). Fear of a permanent royal army, another grievance that was not resolved in the 1640s, was met by James with a permanent royal army. On top of that, the king proved no fonder of parliaments than his brother had been.

This might have been endurable, had it been temporary. But the birth of a male heir on June 10th 1688 made James's settlement look permanent. Twenty days later, seven noblemen sent a letter to William of Orange inviting him to invade.

Both Tim Harris and Edward Vallance want to emphasise that 1688 really was both violent and revolutionary. They also stress the British part of the story: what looked to some like a bloodless conservative coup in England was much more traumatic for Scotland and Ireland. In Ireland, where Ulster's marching Orangemen are an annual reminder of how divisive 1688 was, the Irish

The Glorious Revolution: 1688—Britain's Fight for Liberty
By Edward Vallance



Little, Brown; 372 pages; £20

Buy it at
Amazon.com
Amazon.co.uk

Revolution: The Great Crisis of the British Monarchy, 1685-1720
By Tim Harris

Penguin/Allen Lane; 622 pages; £30

Buy it at
Amazon.co.uk

House of Commons was still putting forward proposals to brand unregistered Catholic priests on the face 30 years after England's supposedly tolerant religious settlement.

If the authors' interpretation of events is similar, their books are sufficiently different that their publishers can relax. Mr Vallance's is entertaining, concise and well judged. Mr Harris's book is longer, crammed with original research and more concerned with the sorts of questions that trouble historians and academics. That does not make it any less readable. James's un-kinging of himself shows how slippery power could be even in an absolute monarchy, and the revolutionary settlement that followed inspired imitators in both France and America.

The Glorious Revolution: 1688—Britain's Fight for Liberty.
By Edward Vallance.
Little, Brown; 372 pages; £20

Revolution: The Great Crisis of the British Monarchy, 1685-1720.
By Tim Harris.
Penguin/Allen Lane; 622 pages; £30

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Amazon worldwide bestseller tables: history

The big book index

Feb 2nd 2006
From The Economist print edition

There is much to learn from the past

TWO of the great historical issues of the past half-century continue to exert a tug on many of those who believe that only by understanding the past can mankind hope to build a better future: how America came to be what it is today and how the Holocaust and the creation of Israel helped to redraw the landscape of the modern Middle East. For those who require more, there is also globalisation, the rise and fall of civilisation and why man is a creature of faith as much as reason.

1. Night.
By Elie Wiesel. *Hill and Wang; 144 pages; $6.30 Penguin; £6.39*

A terrifying account of the horror of a Nazi death camp where a young Jewish boy witnesses the loss of his family, his innocence and his god.

Click to buy from Amazon.com or Amazon.co.uk

2. 1776.
By David McCullough. *Simon & Schuster; 400 pages; $18.51.Penguin/Allen Lane; £17.50*

How George Washington and his brave rebels so nearly lost their revolutionary war against the British.

Click to buy from Amazon.com or Amazon.co.uk

3. The World Is Flat: A Brief History of the Twenty-First Century.
By Thomas L. Friedman. *Farrar, Straus and Giroux; 496 pages; $16.50. Penguin/Allen Lane; £14*

How globalisation has made the world smaller rather than flatter, by the winner of the first FT/Goldman Sachs business book of the year award.

Click to buy from Amazon.com or Amazon.co.uk

4. Team of Rivals: The Political Genius of Abraham Lincoln.
By Doris Kearns Goodwin. *Simon & Schuster; 944 pages; $21.*

Abraham Lincoln, as seen through the eyes of his key cabinet colleagues, many of whom were opponents during the Republican nomination of 1860.

Click to buy from Amazon.com or Amazon.co.uk

5. State of War: The Secret History of the CIA and the Bush Administration.
By James Risen. *Free Press; 256 pages; $15.60. Simon & Schuster; £13.29*

An anecdotal history of American intelligence since September 11th 2001 and how the Bush administration justified its off-the-books domestic spying programme.

Click to buy from Amazon.com or Amazon.co.uk

6. The Assassin's Gate: America in Iraq.
By George Packer. *Farrar, Straus and Giroux; 480 pages; $17.16.Faber and Faber; £7.49*

How the campaign to make Iraq a better place was ill-planned and badly executed.

Click to buy from Amazon.com or Amazon.co.uk

7. At Canaan's Edge: America in the King Years, 1965-68.
By Taylor Branch. *Simon and Schuster; 1,056 pages; $23.10.*

Drama and social history in the last volume of the life and times of Martin Luther King.

Click to buy from Amazon.com or Amazon.co.uk

8. The End of Faith: Religion, Terror, and the Future of Reason.
By Sam Harris; *Norton; 224 pages; $11.16.Free Press; £3.99*

Why many people continue to believe in the promise of paradise to believers and damnation to all others and why they are wrong.

Click to buy from Amazon.com or Amazon.co.uk

9. Guns, Germs and Steel: The Fates of Human Societies.
By Jared Diamond. *Norton; 480 pages; $11.18. Vintage; £8.99*

How the environment affected the rise and fall of different human civilisations.

Click to buy from Amazon.com or Amazon.co.uk

10. Vengeance: The True Story of an Israeli Counter-Terrorist Team.
By George Jonas. *Simon & Schuster; 416 pages; $10.20. Perennial; £3.99*

Five Israelis hunted down and killed those responsible for the massacre of 11 Israeli athletes at the Munich Olympics of 1972 and paid a terrible price.

Click to buy from Amazon.com or Amazon.co.uk

Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr, Amazon.jp, from January 1st-27th 2006. Prices are correct as of January 27th 2006.

Christopher Lloyd

Feb 2nd 2006
From The Economist print edition

Christopher Lloyd, an iconoclastic English gardener, died on January 27th, aged 84

Jonathan Buckley

VISITORS to Great Dixter, an old, rambling, timber-framed house among the steep woods and pastures of the High Weald, on the borders of Kent and Sussex in the south of England, would find it haunted by several tutelary spirits. One, with pipe in mouth and owlish mien, was the shade of Sir Edwin Lutyens, who after 1910 laid out the gardens in what had been a cattle yard. Another, with pebble-spectacles, trug and boots, was the ghost of Gertrude Jekyll, whose principles of gardening first informed the place. And then—short, stout, moustachioed, and looking at first sight as though he might empty a blunderbuss on you as soon as invite you to tea—was Christopher Lloyd. If he was not there, his familiar spirits Yucca, Canna and Dahlia, short-tempered dachshunds, kept guard over the turf.

Save for short spells at Rugby School and Cambridge, Mr Lloyd lived at Great Dixter all his life. He learned gardening there, helping his mother prick out seedlings as a child, and found he never wanted to do anything else. In a country devoted to gardening, Mr Lloyd thus became its best plantsman. With his invaluable head gardener, Fergus Garrett, he stomped round his five-acre domain, ceaselessly experimenting with trees, shrubs and flowers. Each plant would be inspected twice daily, and each experiment recorded in a weatherproof notebook. The fruits of his observations became columns in *Country Life*, *Gardens Illustrated* and the *Guardian*, and were turned into more than 20 books.

“Christo”, as everyone called him, was a great believer in such discipline, which he said he had learnt from the Japanese. But it was only half his philosophy, and not even the more important

half. His strongest belief was in freedom and fun. He advised gardeners to plant what they liked, throw out what they didn't, discard all previous notions of colour, arrangement and taste, put up two fingers to horticultural rectitude and “Go for it”.

In the staid, quiet world of English gardening, this was dynamite. Not so far from Great Dixter, at Sissinghurst Castle, lay the epitome of English taste in Vita Sackville-West's White Garden, surrounded by equally soothing beddings in blue, lilac and mauve. Mr Lloyd waved it aside. What about “Challenging Orange” or “Nothing to Fear Red”? What about a great big bush of mauve-pink *Daphne mezereum* underplanted with a carpet of *Crocus x luteus*, in bright orange-yellow? “The two colours may be shouting at each other,” he wrote, “but they are shouting for joy.”

Mr Lloyd believed in mixing up plants that had never been together before. His ambition was a closely-woven tapestry of colours and textures in which foliage—matt or shiny, grey or variegated, grass or coniferous—was as important as the flowers. In the borders at Great Dixter banana trees grew with verbena, and spiky agave with dahlias. Climbers, annuals, perennials and shrubs all clambered about, “helping each other”, as Mr Lloyd liked to say, with their sheer differences of habit. His borders were a paean to desegregation. When he showed slides of them at his lectures, audiences would sometimes gasp with horror.

His iconoclasm went beyond colour and arrangement. He believed that plants should go their own way in gardens. If a yellow spike of mullein decided to grow in a clump of bright pink phlox, he welcomed it. (“Hurrah for vulgarity!”, as he wrote once.) He was delighted that lichens made patterns on his York stone paths, and that wild birds-foot trefoil colonised the Sunken Garden. These gave him ideas.

Two small lawns at the front of the house were always left unmown until the autumn. Mr Lloyd wanted orchids and fritillaries to grow there, but also hoped to enjoy the wind and light in the grass. Once he allowed a rambler rose to get so out of hand that it killed two holm oaks and made a gap in a hedge; but Mr Lloyd so liked what he saw through the gap, the twisted trunk of a crab-apple tree framed in ilex leaves, that he made a feature of it, underplanting the crab for good measure with bright yellow *Epimedium pinnatum*.

Certain flowers he loved especially. He would brake violently for poppies seen at the roadside, and gloried in lupins and clematis. Hydrangeas, on the other hand, were “anaemic” and most salvias “rubbish”. Roses and lavender he had little luck with; his clay soil was too heavy. He had a special fondness for the white Japanese anemones that backed, calmly and blankly, the psychedelic annuals he tried out in his beds.

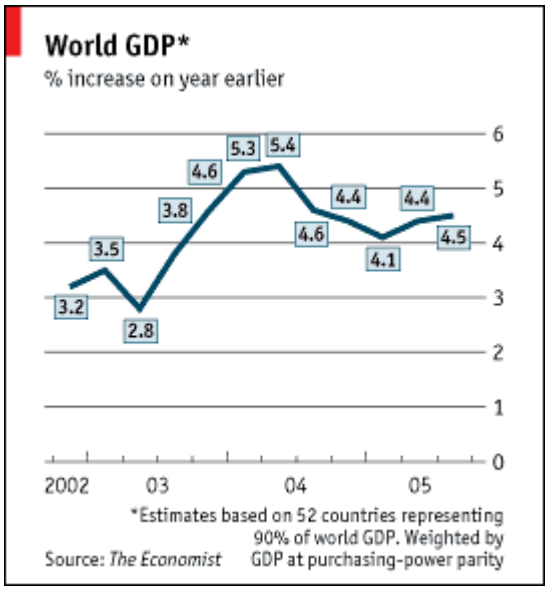
His greatest appreciation, however, was for the hedges and trees that gave architectural structure to his garden, and held its history. The winding yew hedges at Great Dixter had been planted by his father, who had bought the house with his printing fortune. For Mr Lloyd they had “a presence”, seeming to inhabit his garden rather than grow there. He treasured the fig trees introduced by Lutyens—their huge leaves so useful in his plantings—and the few pear trees left from the original farm orchard. On the western boundary stood a line of ash trees that he wished, in dictatorial moods, to cut down, because they filled his garden with seeds. But then freedom and joy prevailed: there was nothing quite like a sunset seen through their faint feathered leaves.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Feb 2nd 2006
From The Economist print edition

In **America** the Federal Reserve raised interest rates to 4.5%. The quarter-point rise was the 14th successive increase since June 2004. In its final meeting chaired by Alan Greenspan, the Fed's rate-setting committee appeared to soften its stance about the need for further monetary tightening. Its decision to raise rates was made despite anaemic growth in the fourth quarter, when GDP increased at an annual rate of only 1.1%.



Growth in **American** manufacturing lost some momentum in January, according to the ISM index. However, consumer confidence rose last month to its highest level since June 2002, according to the Conference Board.

Japan showed more signs that the economic recovery is becoming firmly entrenched. Industrial production grew by 3.8% in the year to December. The unemployment rate fell from 4.6% in November to 4.4% in December, a more substantial decline than expected.

In the **euro area** manufacturing continued to expand in January at the same rate as in December, according to the purchasing managers' index. In **Germany** retail sales fell and unemployment rose in December. By contrast, **French** unemployment fell to 9.5%, the lowest rate for nearly three years.

In **Britain** the housing market continues to revive. According to the Nationwide index, house prices rose by 4.4% in the year to January. The number of mortgage approvals for house purchases rose in December, reaching the highest level for a year and a half. And the outlook for hard-pressed manufacturers brightened in January, according to the purchasing managers' index.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Feb 2nd 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 2.6	Q3	+ 0.6	+ 2.7	+ 3.2	+ 1.3	Q3	+ 1.2	Q3	5.1	Dec	5.1
Austria	+ 1.8	Q3	+ 2.3	+ 1.8	+ 2.0	+ 2.8	Nov	+ 1.3	Oct	5.3	Dec	5.0
Belgium	+ 1.1	Q3	+ 1.7	+ 1.4	+ 1.9	– 1.2	Nov	nil	Nov	12.9	Dec†	12.8
Britain	+ 1.7	Q4	+ 2.4	+ 1.7	+ 2.1	– 2.4	Nov	+ 4.0	Dec	5.0	Nov††	4.7
Canada	+ 2.8	Q3	+ 3.6	+ 2.9	+ 3.1	+ 1.5	Nov	+ 4.0	Nov	6.5	Dec	7.0
Denmark	+ 4.8	Q3	+ 5.7	+ 3.0	+ 2.8	+ 2.9	Nov	+ 4.8	Dec	5.1	Dec	6.1
France	+ 1.8	Q3	+ 2.8	+ 1.5	+ 1.9	+ 1.3	Nov	+ 0.5	Nov	9.5	Dec	10.0
Germany	+ 1.4	Q3	+ 2.5	+ 1.1	+ 1.7	+ 5.0	Nov	– 1.6	Dec	11.3	Jan§	11.5
Italy	+ 0.1	Q3	+ 1.1	+ 0.2	+ 1.3	+ 0.4	Nov	+ 0.4	Oct	7.5	Sep	7.9
Japan	+ 2.9	Q3	+ 1.0	+ 2.5	+ 2.4	+ 3.8	Dec	+ 0.9	Nov	4.4	Dec	4.5
Netherlands	+ 1.3	Q3	+ 2.5	+ 0.8	+ 1.9	+ 0.4	Nov	+ 3.5	Oct	6.3	Dec**	6.7
Spain	+ 3.5	Q4	+ 3.6	+ 3.4	+ 3.0	+ 0.8	Nov	+ 0.1	Nov	8.5	Dec	10.3
Sweden	+ 3.4	Q3	+ 3.9	+ 2.6	+ 3.1	+ 1.0	Nov	+10.7	Dec	5.4	Dec†	5.3
Switzerland	+ 2.3	Q3	+ 4.3	+ 1.8	+ 2.1	+ 2.8	Q3	+ 2.2	Nov	3.8	Dec†	4.0
United States	+ 3.1	Q4	+ 1.1	+ 3.6	+ 3.3	+ 2.8	Dec	+ 4.4	Dec	4.9	Dec	5.4
Euro area	+ 1.6	Q3	+ 2.6	+ 1.4	+ 1.9	+ 2.6	Nov	+ 0.3	Nov	8.4	Dec	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.9	Q3	+12.1	na	na	– 1.4	Dec	+ 5.1	Nov	8.4	Dec	8.6
Greece	+ 3.8	Q3	na	na	na	+ 0.9	Nov	+ 2.6	Oct	9.7	Q3	10.1
Iceland	+ 4.0	Q3	na	na	na	na		na		1.5	Nov†	2.6
Ireland	+ 4.8	Q3	+ 1.3	na	na	+14.8	Nov	+ 3.9	Nov	4.3	Dec	4.3
Luxembourg	+ 3.1	Q1	na	na	na	+ 3.3	Oct	– 2.9	Nov	5.0	Dec	4.5
New Zealand	+ 2.0	Q3	+ 0.2	na	na	– 2.7	Q3	+ 4.9	Q3	3.4	Q3	3.8
Norway	+ 3.1	Q3	+ 3.2	na	na	+ 1.0	Nov	+ 3.3	Dec	4.5	Dec**	4.4
Portugal	+ 0.2	Q3	– 3.7	na	na	+ 5.1	Dec	+ 1.5	Dec	7.7	Q3†	6.8

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Sep-Nov; claimant count rate 2.9% in Dec.
§EU harmonised rate 9.3% in Nov. **Oct-Dec. ‡Sep-Nov.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Feb 2nd 2006
From The Economist print edition

% change on year ago

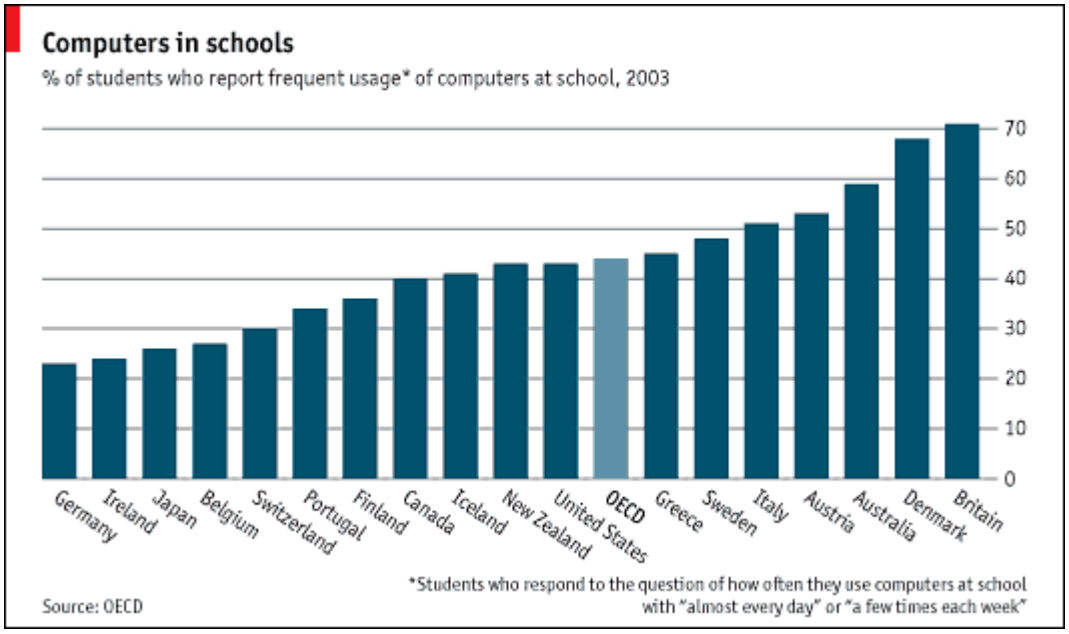
	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.8	Q4	+ 2.6	+ 2.8	+ 2.9	+ 4.8	Q4	+ 8.2	+ 6.1	Q3	+ 3.5
Austria	+ 1.6	Dec	+ 2.9	+ 2.3	+ 1.9	+ 1.4	Dec	+ 5.2	+ 2.4	Dec	+ 2.0
Belgium	+ 2.6	Jan	+ 2.3	+ 2.5	+ 2.1	+ 2.4	Dec	+ 5.3	+ 2.3	Oct	+ 2.4
Britain	+ 2.0	Dec*	+ 1.6	+ 2.1	+ 2.0	+ 2.4	Dec	+ 2.9	+ 3.4	Nov†	+ 4.3
Canada	+ 2.2	Dec	+ 2.1	+ 2.3	+ 2.3	+ 2.5	Dec	+ 3.6	+ 2.8	Oct	+ 2.0
Denmark	+ 2.2	Dec	+ 1.2	+ 1.8	+ 1.9	+ 4.6	Dec	+ 2.7	+ 2.8	Q3	+ 2.9
France	+ 1.5	Dec	+ 2.1	+ 1.9	+ 1.7	+ 3.1	Dec	+ 3.0	+ 3.2	Q3	+ 2.9
Germany	+ 2.1	Jan	+ 1.6	+ 2.0	+ 1.7	+ 2.4	Dec	+ 3.8	+ 0.2	Nov	− 0.5
Italy	+ 2.0	Dec	+ 2.0	+ 2.1	+ 2.1	+ 4.1	Dec	+ 4.2	+ 2.3	Dec	+ 3.3
Japan	− 0.1	Dec	+ 0.2	− 0.2	+ 0.3	+ 2.2	Dec	+ 1.9	+ 1.3	Dec	+ 0.8
Netherlands	+ 2.0	Dec	+ 1.2	+ 1.5	+ 1.5	+ 5.6	Dec	+ 5.1	+ 1.1	Dec	+ 0.7
Spain	+ 4.2	Jan	+ 3.2	+ 3.4	+ 3.1	+ 5.2	Dec	+ 5.0	+ 1.9	Q3	+ 2.2
Sweden	+ 0.9	Dec	+ 0.4	+ 0.5	+ 1.5	+ 6.4	Dec	+ 2.0	+ 3.3	Nov	+ 2.4
Switzerland	+ 1.0	Dec	+ 1.3	+ 1.2	+ 1.1	+ 1.1	Dec	+ 1.7	+ 0.9	2004	+ 1.4
United States	+ 3.4	Dec	+ 3.3	+ 3.4	+ 2.9	+ 5.7	Dec	+ 4.4	+ 3.1	Dec	+ 2.6
Euro area	+ 2.2	Dec	+ 2.4	+ 2.2	+ 2.0	+ 4.2	Nov	+ 3.7	+ 2.2	Q3	+ 1.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Dec	+ 0.4	na	na	+ 5.2	Dec	+ 0.7	+ 3.6	Q3	+ 4.0
Greece	+ 3.6	Dec	+ 3.1	na	na	+ 8.3	Dec	+ 2.9	na		na
Iceland	+ 4.4	Jan	+ 4.0	na	na	+ 3.9	Dec	+ 5.9	+ 7.2	Dec	+ 6.0
Ireland	+ 2.5	Dec	+ 2.6	na	na	+ 3.5	Dec	− 1.6	+ 3.5	Q3	+ 4.7
Luxembourg	+ 2.5	Dec	+ 2.2	na	na	+ 1.9	Nov	+15.6	+ 4.8	Oct	− 2.3
New Zealand	+ 3.2	Q4	+ 2.7	na	na	+ 6.1	Q3	+ 2.5	+ 3.0	Q3	+ 2.2
Norway	+ 1.8	Dec	+ 1.1	na	na	+24.3	Dec	+ 9.7	+ 2.6	Q3	+ 4.3
Portugal	+ 2.6	Dec	+ 2.5	na	na	+ 3.9	Dec	+ 4.7	+ 1.2	Nov	+ 0.5

*RPI inflation rate 2.2% in Dec. †Sep-Nov.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Computers in schools

Feb 2nd 2006
From The Economist print edition



Students who are veteran computer users tend to do better at school than those with limited experience, according to a new study by the OECD. Although access to computers is now common at school, the study shows that 15-year-olds use computers more often at home. In Germany, for instance, only 23% of 15-year-olds said they used a computer frequently at school; more than 80% said they often logged on at home.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Feb 2nd 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Feb 1st 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.1	+ 9.1	Dec	5.63	5.47	5.23	5.36	5.32	6.35
Britain	+ 4.6	+12.6	Dec	4.55	4.83	4.34	4.16	4.58	5.14
Canada	+11.1	+ 7.7	Dec	3.51	2.43	3.89	4.20	4.31	5.30
Denmark	+19.9	+14.7	Dec	2.51	2.25	2.90	3.47	3.60	4.97
Japan	+ 5.5	+ 2.0	Dec	0.03	0.02	0.28	1.54	1.29	1.64
Sweden	+ 2.3	+ 9.9	Dec	1.93	1.98	2.58	3.48	3.70	3.43
Switzerland	+ 5.4	+ 5.6	Dec	1.04	0.75	1.48	2.20	2.07	2.22
United States	- 0.1	+ 7.8	Dec	4.53	2.60	4.59	4.56	4.14	5.50
Euro area†	+11.3	+ 7.3	Dec	2.55	2.14	2.91	3.49	3.51	3.94

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.71%, Japan No. 275 1.55%. Central bank rates: US fed funds 4.50%, ECB refinancing 2.25%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, J.P. Morgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Feb 2nd 2006
From The Economist print edition

2000=100

	Jan 24th	Jan 31st*	% change on one month	% change on one year
Dollar index				
All items	152.4	156.8	+ 6.5	+24.7
Food	134.0	137.2	+ 3.3	+17.5
Industrials				
All	176.1	182.0	+ 9.9	+32.7
Nfa†	147.3	148.9	+ 7.0	+18.3
Metals	191.8	200.1	+11.1	+39.5
Sterling index				
All items	129.5	133.7	+ 4.2	+31.9
Euro index				
All items	114.8	119.4	+ 5.2	+33.6
Yen index				
All items	162.1	170.3	+ 6.9	+40.3
Gold				
$ per oz	556.90	569.75	+ 7.8	+35.6
West Texas Intermediate				
$ per barrel	67.00	67.77	+ 7.4	+43.7

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Feb 2nd 2006
From The Economist print edition

Market indices

	Feb 1st	2005-06 high	2005-06 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,903.9	4,903.9	3,905.5	+ 1.9	nil	+21.0	+16.6
Austria (ATX)	4,035.5	4,035.5	2,415.0	+ 4.0	nil	+66.0	+47.8
Belgium (Bel 20)	3,776.2	3,776.2	2,958.8	+ 2.5	nil	+28.8	+14.6
Britain (FTSE 100)	5,801.6	5,801.6	4,783.6	+ 1.7	-16.3	+20.5	+11.7
Canada (Toronto Composite)	11,952.1	11,952.1	9,006.2	+ 2.4	nil	+29.3	+35.7
Denmark (OMXCB)	375.4	375.4	257.8	+ 2.5	nil	+45.6	+29.2
France (SBF 250)	3,510.4	3,510.4	2,633.6	+ 4.1	-20.0	+33.3	+18.6
(CAC 40)	4,999.4	4,999.4	3,816.1	+ 4.3	-27.8	+30.8	+16.5
Germany (DAX)*	5,726.5	5,726.5	4,178.1	+ 5.5	-29.0	+34.5	+19.8
Italy (S&P/MIB)	36,967.0	36,967.0	30,645.0	+ 2.9	-26.2	+19.6	+ 6.5
Japan (Nikkei 225)	16,480.1	16,649.8	10,825.4	+ 5.3	-57.7	+43.4	+24.8
(Topix)	1,694.2	1,710.8	1,109.2	+ 4.7	-41.3	+47.4	+28.2
Netherlands (AEX)	455.7	455.7	347.0	+ 4.4	-35.0	+30.9	+16.6
Spain (Madrid SE)	1,213.7	1,213.7	950.9	+ 3.5	nil	+26.5	+12.7
Sweden (Affarsvarlden Gen)	300.2	300.2	218.9	+ 3.6	-25.0	+35.7	+18.0
Switzerland (Swiss Market)	7,836.2	7,836.2	5,669.6	+ 2.0	- 6.8	+37.6	+21.9
United States (DJIA)	10,954.0	11,043.4	10,012.4	+ 2.3	- 6.6	+ 1.6	+ 1.6
(S&P 500)	1,282.5	1,294.2	1,137.5	+ 1.4	-16.0	+ 5.8	+ 5.8
(NASDAQ Comp)	2,310.6	2,331.4	1,904.2	+ 2.2	-54.2	+ 6.2	+ 6.2
Europe (FTSEurofirst 300)†	1,333.3	1,333.3	1,038.6	+ 3.3	-21.8	+28.0	+13.9
Euro area (FTSE Euro 100)†	1,136.3	1,136.3	894.4	+ 4.1	-26.7	+26.1	+12.3
World (MSCI)‡	1,314.6	1,314.6	1,115.0	+ 1.8	- 9.3	+12.4	+12.4
World bond market (Citigroup)††	625.5	662.3	608.7	- 1.5	- 5.6	- 6.1	- 6.1

*Total return index. †In euro terms. ‡Morgan Stanley Capital International Index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Feb 2nd 2006
From The Economist print edition

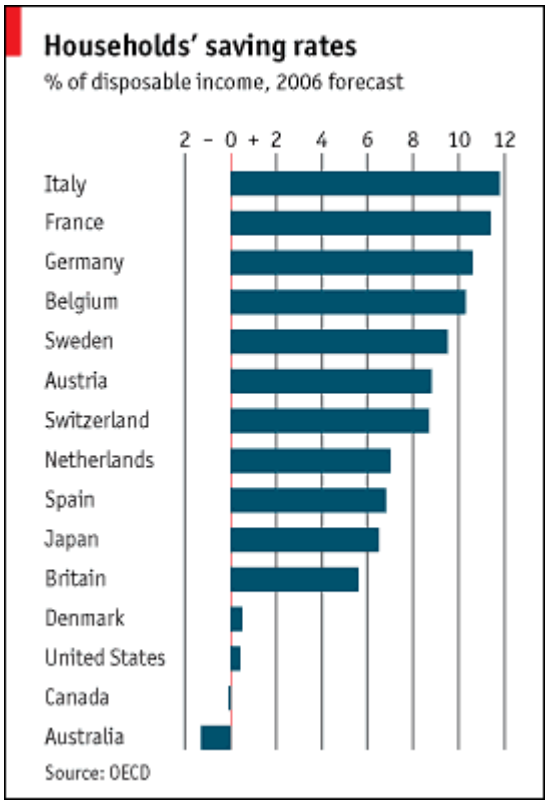
	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Feb 1st	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Feb 1st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2005‡
Australia	− 15.0 Nov	− 43.5 Q3	− 5.9	− 5.3	119.2	114.6	1.32	1.29	2.36	1.60	1.12	+ 1.0
Austria	− 2.1 Nov	− 0.4 Nov	nil	− 0.1	103.7§	104.7	0.83	0.77	1.47	–	0.70	− 2.0
Belgium	+ 14.2 Nov	+ 8.2 Sep	+ 2.2	+ 2.2	104.1§	105.6	0.83	0.77	1.47	–	0.70	nil
Britain	−116.9 Nov	− 40.6 Q3	− 2.1	− 2.2	99.1	99.9	0.56	0.53	–	0.68	0.48	− 3.1
Canada	+ 52.7 Nov	+ 19.6 Q3	+ 1.8	+ 1.6	127.2	115.2	1.14	1.24	2.03	1.38	0.97	+ 1.3
Denmark	+ 9.2 Nov	+ 8.7 Nov	+ 2.9	+ 2.8	105.8	106.5	6.17	5.71	11.0	7.46	5.24	+ 2.8
France	− 31.6 Nov	− 34.6 Nov	− 1.2	− 1.0	106.6§	108.3	0.83	0.77	1.47	–	0.70	− 3.2
Germany	+203.6 Nov	+114.0 Nov	+ 3.9	+ 3.8	104.3§	106.2	0.83	0.77	1.47	–	0.70	− 3.9
Italy	− 11.8 Nov	− 28.9 Nov	− 1.5	− 1.4	76.3§	77.5	0.83	0.77	1.47	–	0.70	− 4.3
Japan	+ 97.6 Nov	+164.7 Nov	+ 3.5	+ 3.4	81.2	89.6	118	104	210	143	–	− 6.5
Netherlands	+ 39.3 Nov	+ 44.3 Q3	+ 4.1	+ 4.2	103.6§	105.1	0.83	0.77	1.47	–	0.70	− 1.6
Spain	− 96.4 Nov	− 82.6 Oct	− 6.5	− 6.8	77.1§	77.9	0.83	0.77	1.47	–	0.70	+ 0.3
Sweden	+ 19.3 Dec	+ 24.2 Q3	+ 7.0	+ 6.7	97.2	100.1	7.64	6.97	13.6	9.25	6.49	+ 1.2
Switzerland	+ 6.7 Dec	+ 49.3 Q3	+13.3	+12.7	106.4	107.2	1.28	1.19	2.28	1.55	1.09	− 1.6
United States	−772.7 Nov	−780.6 Q3	− 6.5	− 6.6	86.1	82.0	–	–	1.78	1.21	0.85	− 3.7
Euro area	+ 35.9 Nov	− 26.3 Nov	nil	nil	116.2	118.5	0.83	0.77	1.47	–	0.70	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.4 Nov	+ 6.8 Nov	na	na	81.4§	82.3	0.83	0.77	1.47	–	0.70	+ 2.1
Greece	− 34.1 Nov	− 17.0 Nov	na	na	59.8§	60.4	0.83	0.77	1.47	–	0.70	− 4.5
Iceland	− 1.5 Nov	− 2.2 Q3	na	na	109.9**	96.1	63.1	61.6	112	76.4	53.6	+ 2.0
Ireland	+ 40.6 Nov	− 3.7 Q3	na	na	93.6§	96.2	0.83	0.77	1.47	–	0.70	− 0.9
Luxembourg	− 4.8 Nov	+ 3.5 Q3	na	na	104.1§	105.6	0.83	0.77	1.47	–	0.70	− 2.3
New Zealand	− 4.5 Dec	− 9.1 Q3	na	na	137.3	133.7	1.46	1.41	2.59	1.76	1.24	+ 5.3
Norway	+ 47.8 Dec	+ 43.7 Q3	na	na	108.2	106.1	6.67	6.34	11.9	8.07	5.66	+ 15.3
Portugal	− 23.3 Oct	− 16.7 Nov	na	na	93.7**	93.7	0.83	0.77	1.47	–	0.70	− 6.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, November average. ‡OECD estimate.
**IMF, September average.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Households' saving rates

Feb 2nd 2006
From The Economist print edition



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Feb 2nd 2006
From The Economist print edition

Thailand's current account moved into deficit last year for the first time since its financial crisis in 1997. **Turkey's** trade deficit widened to a record $42.9 billion. **Brazil's** trade surplus increased to a record $45.4 billion in the year to January.

Russia's GDP grew by 7.0% in the year to the fourth quarter of 2005. That gave an average growth rate of 6.4% for the whole year, down from 7.2% in 2004.

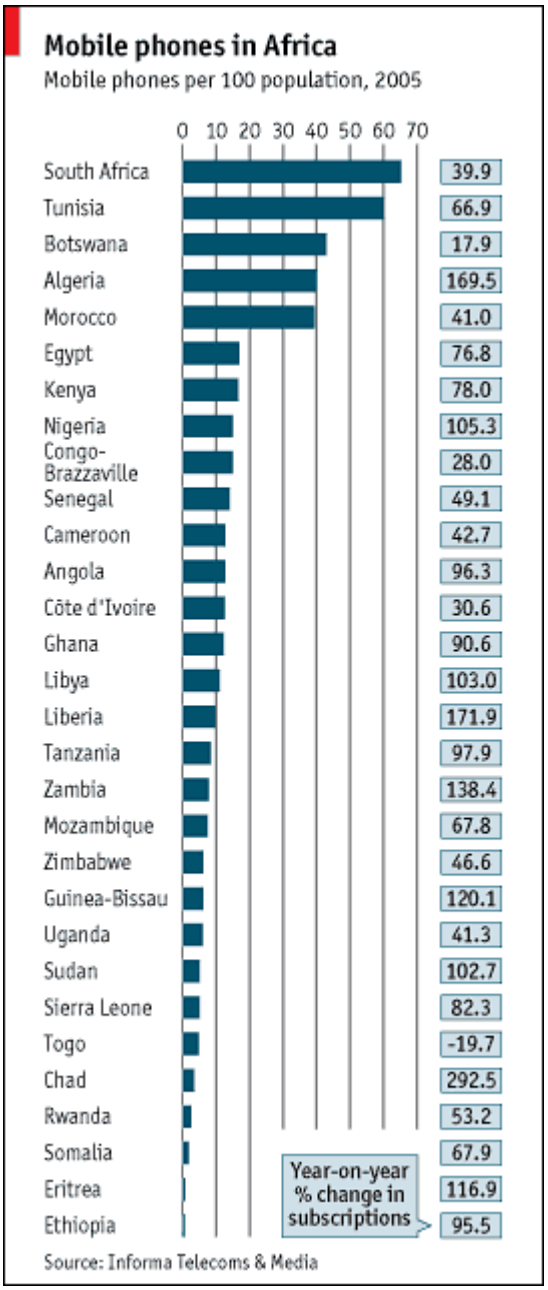
Indonesian consumer prices rose by 17% in the year to January, the highest inflation rate in our table. India's inflation rate rose to 5.6% in December, its highest since 1999.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Mobile phones in Africa

Feb 2nd 2006
From The Economist print edition

The use of mobile phones is booming in Africa, where subscriber-growth rates exceeded 100% in some countries last year, according to Informa, a research group. Markets in the extreme north and south of the continent are the most mature, and growth rates are healthy in much of sub-Saharan Africa. Trailing the field are Eritrea and Ethiopia, where state telecoms monopolies prevail.



Economy

Feb 2nd 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+16.5	Dec	+ 1.6	Dec	+102.1	Dec	+128.5	H1	818.9	Dec
Hong Kong	+ 8.2	Q3	+ 4.1	Q3	+ 1.8	Dec	−10.5	Dec	+21.0	Q3	124.3	Dec
India	+ 8.0	Q3	+ 6.9	Nov	+ 5.6	Dec	−37.4	Dec	−18.3	Q3	131.0	Dec
Indonesia	+ 5.3	Q3	+11.3	Nov	+17.0	Jan	+27.8	Dec	+ 0.7	Q3	31.7	Nov
Malaysia	+ 5.3	Q3	+ 6.7	Nov	+ 3.5	Dec	+25.6	Nov	+18.7	Q3	69.9	Dec
Pakistan	+ 8.4	2005†	+11.0	Jun	+ 8.5	Dec	− 9.3	Dec	− 3.7	Q3	10.0	Dec
Philippines	+ 6.1	Q4	+ 4.0	Nov	+ 6.6	Dec	− 2.6	Nov	+ 2.9	Sep	15.8	Dec
Singapore	+ 7.7	Q4	+ 5.1	Dec	+ 1.3	Dec	+29.6	Dec	+33.7	Q3	116.6	Dec
South Korea	+ 5.2	Q4	+11.3	Dec	+ 2.8	Jan	+21.1	Jan	+16.6	Dec	210.4	Dec
Taiwan	+ 4.4	Q3	+ 9.5	Dec	+ 2.2	Dec	+ 7.8	Dec	+ 8.9	Q3	253.3	Dec
Thailand	+ 5.3	Q3	+ 6.1	Dec	+ 5.9	Jan	− 9.0	Dec	− 3.7	Dec	49.4	Nov
Argentina	+ 9.2	Q3	+ 7.9	Dec	+12.3	Dec	+11.3	Dec	+ 4.4	Q3	25.7	Nov
Brazil	+ 1.0	Q3	+ 0.6	Nov	+ 5.7	Dec	+45.4	Jan	+14.2	Dec	53.2	Dec
Chile	+ 5.2	Q3	+ 6.2	Nov	+ 3.7	Dec	+ 9.2	Dec	− 0.2	Q3	17.0	Dec
Colombia	+ 5.8	Q3	+ 0.6	Nov	+ 4.6	Jan	+ 1.5	Oct	− 1.7	Q3	14.8	Dec
Mexico	+ 3.3	Q3	+ 3.0	Nov	+ 3.3	Dec	− 7.6	Dec	− 8.4	Q3	72.7	Nov
Peru	+ 7.9	Nov	+ 7.6	Nov	+ 1.9	Jan	+ 4.6	Nov	+ 0.8	Q3	13.2	Dec
Venezuela	+ 9.8	Q3	+10.8	Oct	+13.1	Jan	+28.2	Q3	+21.6	Q3	24.4	Oct
Egypt	+ 5.2	Q1	+ 4.0	2005†	+ 3.1	Dec	−11.3	Q3	+ 1.8	Q3	20.9	Dec
Israel	+ 5.7	Q3	+ 3.5	Nov	+ 2.4	Dec	− 7.9	Dec	+ 2.4	Q3	27.9	Dec
Saudi Arabia	+ 6.2	2005‡	na		+ 1.0	Sep	+84.6	2004	+51.9	2004	27.6	Nov
South Africa	+ 4.9	Q3	+ 3.7	Nov	+ 3.6	Dec	− 2.8	Dec	−10.3	Q3	18.6	Dec
Czech Republic	+ 4.9	Q3	+ 7.2	Nov	+ 2.2	Dec	+ 1.5	Nov	− 3.4	Q3	29.3	Dec
Hungary	+ 4.5	Q3	+ 7.7	Nov	+ 3.3	Dec	− 3.5	Nov	− 8.7	Q3	17.5	Dec
Poland	+ 3.7	Q3	+ 9.2	Dec	+ 0.7	Dec	− 3.1	Nov	− 4.9	Nov	39.8	Dec
Russia	+ 7.0	Q4	+ 4.6	Dec	+10.9	Dec	+117.6	Nov	+81.2	Q3	175.9	Dec
Turkey	+ 7.0	Q3	+10.7	Nov	+ 7.7	Dec	−42.9	Dec	−21.7	Nov	50.5	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+10.8	Q3	+14.3	Dec	+ 3.6	Dec	− 2.5	Nov	− 1.4	Nov	1.8	Nov
Latvia	+11.4	Q3	+ 5.9	Nov	+ 7.0	Dec	− 2.9	Nov	− 1.9	Nov	2.2	Nov
Lithuania	+ 8.2	Q4	na		+ 3.0	Dec	− 3.6	Nov	− 1.7	Nov	3.5	Nov
Slovakia	+ 6.2	Q3	+ 5.7	Nov	+ 3.7	Dec	− 1.9	Nov	− 2.9	Oct	14.9	Nov
Slovenia	+ 3.7	Q3	+ 7.3	Nov	+ 2.3	Dec	− 1.6	Nov	+ 0.1	Nov	8.0	Oct

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Financial markets

Feb 2nd 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 1st		Dec 31st 2004	
	Feb 1st	year ago	Feb 1st	% a year		one week	in local currency	in $ terms
China	8.06	8.28	14.3	1.89	1,318.9**	nil	- 0.8	+ 1.8
Hong Kong	7.76	7.80	13.8	3.93	15,742.3	+1.4	+ 10.6	+ 10.8
India	44.1	43.3	78.5	6.67	9,859.3	+1.8	+ 49.3	+ 47.1
Indonesia	9,325	9,185	16,593	13.97	1,240.7	+0.9	+ 24.0	+ 23.5
Malaysia	3.75	3.80	6.67	3.28	914.0	+0.5	+ 0.7	+ 2.1
Pakistan	59.9	59.3	106.59	8.94	10,497.1	+2.8	+ 68.8	+ 67.3
Philippines	52.1	55.0	92.7	7.31	2,143.5	+1.5	+ 17.6	+ 26.7
Singapore	1.63	1.64	2.89	3.31	2,431.7	+2.2	+ 17.7	+ 18.1
South Korea	962	1,028	1,712	4.20	1,376.0	+2.5	+ 53.6	+ 65.3
Taiwan	32.0	31.7	56.9	1.65	6,532.2**	nil	+ 6.4	+ 5.4
Thailand	39.2	38.5	69.7	4.60	760.4	-0.3	+ 13.8	+ 12.8
Argentina	3.06	2.93	5.45	8.94	1,747.2	+2.3	+ 27.0	+ 23.2
Brazil	2.21	2.62	3.94	17.23	38,484.0	+2.9	+ 46.9	+ 76.2
Chile	528	582	940	4.92	9,528.1	+1.7	+ 6.3	+ 11.9
Colombia	2,267	2,362	4,034	6.09	10,675.0	-4.3	+145.6	+154.9
Mexico	10.4	11.2	18.6	7.72	19,162.4	+1.6	+ 48.3	+ 58.6
Peru	3.31	3.26	5.88	3.56	5,915.8	+13.7	+ 59.4	+ 58.1
Venezuela	2,681§	2,754§	4,770	11.33	25,615.8	+4.8	- 14.5	- 17.8
Egypt	5.73	5.82	10.20	8.10	68,994.7	+7.0	+180.6	+197.1
Israel	4.67	4.39	8.31	4.91	848.4	- 2.7	+ 31.8	+ 21.9
Saudi Arabia	3.75	3.75	6.67	5.22	19,069.5	+2.1	+132.4	+132.4
South Africa	6.11	6.04	10.9	7.15	20,041.0	+4.0	+ 58.3	+ 46.1
Czech Republic	23.5	23.1	41.8	2.04	1,516.5	-0.8	+ 46.9	+ 39.7
Hungary	208	188	370	6.16	22,369.9	+0.1	+ 51.7	+ 32.0
Poland	3.16	3.09	5.62	4.34	38,038.0	-3.3	+ 42.8	+ 35.5
Russia	28.1	28.0	50.1	12.00	1,339.6‡	+1.1	+121.4	+118.1
Turkey	1.32	1.35	2.35	14.71	45,250.7	-1.1	+ 81.2	+ 84.7
EM (MSCI)*	1.00	1.00	1.78	na	786.1	+2.1	+ 45.0	+ 45.0
EMBI+†	1.00	1.00	1.78	na	373.5	-0.4	+ 13.3	+ 13.3

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **January 23rd

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.